THE FREEMAN

IDEAS ON LIBERTY

The Moral Foundations of Property Rights

Underground Government

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John Gray's Liberalism: Two Reviews

NOVEMBER 1986

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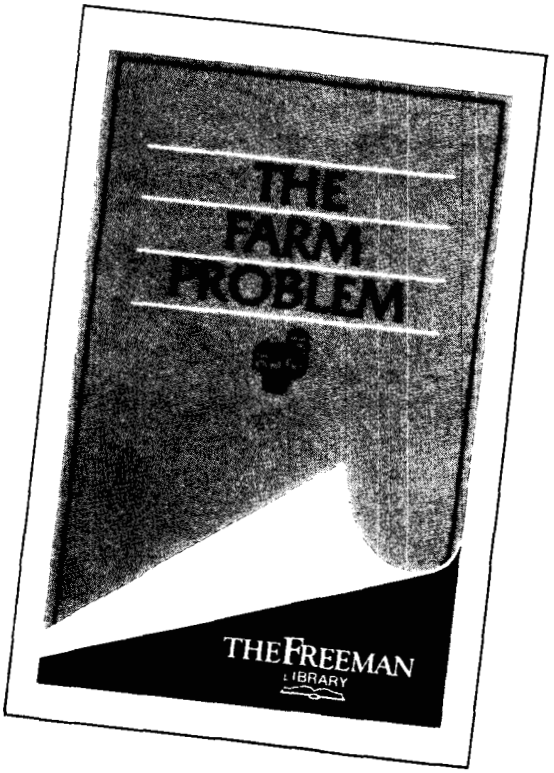

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CONTENTS
NOVEMBER
1986
VOL. 36
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404 **Underground Government**
Hans F. Sennholz
How "off-budget" spending circumvents the mandates of taxpayers and consumers.

412 **Socialism and Incentives**
David Osterfeld
Socialism rewards sloth and penalizes hard work.

416 **The Forgotten Dream**
John K. Williams
Free societies have departed from the dream that gave them birth.

423 **The Golden Age of Opportunity**
Gregory F. Rehmke
When people are free, adversity fosters growth and progress.

425 **The Moral Foundations of Property Rights**
Brian Summers
A preliminary discussion of the bases for private ownership.

431 **Public Education: How Free?**
Rolf McEwen
Education requires what government cannot provide.

433 **Private Schools in the Inner City**
Howard Baetjer Jr.
How can the poor afford private schools?

435 **Our School System: The Dream and the Reality**
David Smyth
What if there were no public schools?

438 **A Reviewer's Notebook**
John Chamberlain and *Richard Ebeling* offer two perspectives on John Gray's "Liberalism."

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IDEAS ON LIBERTY

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PERSPECTIVE

Privatization: Two Perils

"Privatization" conjures up the picture of a shift of governmental activity into private hands. At first glance, this would seem to merit applause from those of us who favor the free market, private property, limited government system. After all, if non-coercive, creative "public" functions are transferred to the marketplace where they belong, individual liberty will flourish to the betterment of us all.

Yet those who employ the euphemism of "privatization" often use the word to mask two related ideological perils: First, the term may mean the mere "contracting out" of "public services" to private entrepreneurs as a means of carrying out activities which are not the proper function of government. Second, the doctrine may encompass the premise that the private sector—the market—will be allowed to accomplish specific "publicly necessary" functions only for as long as the government determines that those endeavors are properly performed. The State thus acts as a backstop or guarantor, a provider of last resort in the event that the market fails to supply the goods or services as directed by the government. Both of these ideological snares pose fatal pitfalls to the principled student of liberty.

Consider first the idea of "contracting out government services." This idea rests on the belief that the services provided or the goods produced constitute a necessary and proper governmental function, with the only quibble relating to the most effective means of carrying out this presumably appropriate "public service." Such a tenet violates the principles of minimal government and unrestrained individual action: the proper State exists solely to repel and deter the initiation of force and the application of fraud, and to afford a system of common justice capable of adjudicating otherwise insoluble disputes between citizens.

Sovereignty cannot tolerate the delegation of these destructive, outside-the-market powers to private citizens. The cloaking of private individuals with the compulsive powers of the State in the arena of creativity outside the narrow fences of proper governmental action cannot disguise the immorality and foolishness of the act. The State cannot delegate the monopoly of

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force needed to police criminal and fraudulent conduct, nor can it "contract" for a system of justice. These are the sole responsibility of government. "Contracting out" creates a confusion of terms.

By the same token, if an activity undertaken by the State penetrates the arena of creative human conduct, liberty lessens and slavery abides. The condition does not change for the better by endowing private citizens with the powers of government.

Indeed, the "contracting out" thesis concedes the greater efficiency of the market, although it remains to be seen if contract employees retain any semblance of efficiency in non-competitive bureaucratic enterprises. And even if we assume that contract employees are more efficient, this fails to answer the pertinent inquiry: why help a tyrant become more efficient and hence prolong the agony he inflicts? Why would any honest and accountable individual strike such a bargain with the traducers of freedom, and why would any defender of the voluntary way praise such nonsense?

The "contracting out" concept assumes a number of slim disguises. It permeates the charade of "public corporations" such as the Postal Service. It appears in the euphemistic phrase, "proprietary functions of government should be operated like a business," which lies behind socialistic ventures such as the Tennessee Valley Authority. It supports the extortive process designed to buy off the beneficiaries of legal plunder. Whatever the protective garb, the theory is blatant and dangerous.

Let us now turn to the second peril of privatization: use of "privatization" to retain the State as both ultimate authority over the necessity and wisdom of a good or service and final arbitrator of the sufficiency of the good or service.

By nature, a market consists of all willing and interested participants. Each such individual "votes" in a massive "dollar democracy" for those goods, services, or ideas which most appeal to him or her. A market exists without coercion and without inflexible presuppositions of ultimate desirability; it caters to the wants of every one of us who buys and sells therein. A market flourishes precisely because of the lack of prior restraint and pre-defined limits.

This simple description lays bare the inconsistency of those "privatizers" who see the marketplace as a handy smorgasbord for purveyors of predetermined fare. If the State decides that certain goods and services must be offered, and that the police power must pass upon the quality and quantity of those goods and services, the supposed transfer from the public coercive apparatus to the private creative process is a sham. The result—a coerced economy—does not constitute a market at all; rather, the clumsy claw of government has tinkered with the system and obliterated any semblance of true liberty.

Those who prize freedom must not waver in their devotion to principle. We ought to praise the abatement of governmental power whenever it recedes from the creative sector. And, importantly, we must not be gulled by those who contend that the enemy is capitulating when, in fact, the State and its operatives are merely employing fifth column tactics to lessen their natural bumbling and to continue fooling the foolish.

—Ridgway K. Foley, Jr.

(Mr. Foley, a partner in Schwabe, Williamson, Wyatt, Moore & Roberts, practices law in Portland, Oregon.)

Op-Ed Update

FEE's op-ed program, inaugurated last spring, has placed adaptations of *Freeman* articles in more than 40 newspapers around the country. Dwight Lee's "The Political Economy of Educational Vouchers" (August) was reprinted in *The Anchorage Times* and the *Charleston Gazette*. Among the newspapers carrying James Gwartney's "A Christian Speaks Up for Capitalism" (August) were *The Phoenix Gazette, San Jose Mercury News,* and *The San Diego Union*. "Air Transportation Safety" by John Semmens and Harry Wolfe (August) appeared in *The Orange County Register, The Joplin Globe, The Dayton Daily News,* and *The Green Bay Press-Gazette*. "Lilacs" by Jack Schwartzman (September) has appeared in newspapers in Texas, Florida, California and Tennessee.

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THE FREEMAN
IDEAS ON LIBERTY

Underground Government

by Hans F. Sennholz

When the burden of taxation becomes oppressive many taxpayers are tempted to evade their obligations by working off the books. When government regulations and license requirements make certain services exorbitantly expensive, many people may disregard the restrictions and hire unlicensed labor or learn to do it themselves. When entitlement benefits are connected with employment and income restrictions, the beneficiaries are tempted to ignore the restrictions and work off the books. In every case people react to the burdens imposed and obstacles erected by hiding from the watchful eyes of political authorities and escaping to the underground.

In a similar way, when constraints on government pose a major threat to politicians, government employees, and powerful interest groups that benefit from political largess, government goes underground. When budget cuts threaten the position and incomes of politicians and bureaucrats they react by going "off-budget." Whether they are committed philosophically to expand the political arena or just defend their economic existence and life style, off-budget operations are an important procedure for achieving their goal.

The path to underground government is rather short and direct. Government merely needs to establish independent corporations, that is, quasi-public enterprises that are managed by politicians or their appointees and operated "off-budget." These enterprises (OBEs) may engage in any economic activity from the construction and maintenance of airports, public housing, and libraries, to the development of theaters, stadiums, and zoos. Their spending, borrowing, and other activities are deleted from any government budget. Their debt is not subject to constitutional debt limitation nor is it conditional on voter approval. Government activity may thus be made to disappear by a simple stroke of the pen that creates a corporate charter. The simple expedient of a corporate guise moves political machinations beyond the control and scrutiny of the electorate.[1]

An OBE is a creation of politics. It is a body or board authorized by law to enact ordinances or adopt resolutions for the purpose of acquiring, constructing, improving, maintaining, and operating "civic projects." It may borrow money and issue bonds for these purposes. It must not be confused with "taxing districts" that are subject to budgetary limitations, are endowed with taxing powers, and guided by elected directors. OBEs operate outside the governmental structure, lack taxing powers, and function under appointed directors. Except for these differences, the taxing districts and OBEs are akin in form and function.

Most politicians and officials, however, prefer OBE's. The use of OBE's allows them to spend and borrow without constraint, to dispense patronage without civil service restric-

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tions, and to bestow favors and benefits on special groups. An OBE is an anomaly of organization: a government entity unfettered by many of the statutory constraints applicable to government, a corporation without stockholders but with a board of directors consisting of politicians or their appointees, a non-profit business that competes with business or is protected from competition as an unregulated monopoly.

The pace of off-budget activity seems to vary with the imposition of tax and expenditure limitations. When tax resistance limits the scope of government revenue, politicians and bureaucrats on all levels of government learn to evade rather than accommodate. When state and local governments chafe under constitutional restrictions they go underground. Moreover, the federal government can be expected to encourage the move. It encourages off-budget activity by providing grants-in-aid and extending loans directly to OBEs, bypassing on-budget units of government. Aid may be given by an off-budget Federal enterprise to an off-budget state or municipal enterprise with a handful of politicians and officials deciding the issue. Taxpayers have no voice in such matters.

Most government entities in the United States are spawning OBEs. There are more than ten thousand OBEs raising funds by issuing tax-exempt bonds not subject to legal restrictions on public debt, conducting business in competition with individual enterprises or as monopolies sheltered by legal prohibitions, and dispensing economic favors in exchange for political support. They are masquerading under various guises such as boards, authorities, agencies, commissions, corporations, and trusts. Most of them are state and local entities; the federal government has spawned only a few as Federal spending and borrowing remain virtually unhampered by either constitutional or statutory limitation. And yet, Federal off-budget financing is growing at a remarkable rate especially through the off-budget Federal Financing Bank. Unfortunately, the American public knows little about underground government activity. In fact, there are few statistics on OBEs and the political wheeling and dealing they conceal from the public. There are few voices that warn against the consequences of such practices.

Off-Budget Local Government

During the 1960s and 1970s local governmental bodies gave birth to thousands of independent entities that operate "off-budget." On December 31, 1984, in the Commonwealth of Pennsylvania alone, some 2,548 municipal entities were pursuing 2,896 projects, most of which were off-budget. Among others there were 37 airport authorities, 121 parking authorities, 691 sewer authorities, 298 water authorities, 97 recreation authorities, 48 solid waste authorities, 82 health authorities, 95 other single-purpose authorities, and 341 multi-purpose authorities. They are accustomed to borrowing between half a billion dollars to one and a half billion dollars every year and, on December 31, 1984, carried a debt of $8.2 billion.[2] Throughout the U.S., municipal authorities owed a total long-term debt of $271.3 billion of which $108 billion were "full-faith-and-credit" issues and $163.2 billion 'non-guaranteed.'"[3]

The phenomenal growth of "off-budget" local government in recent years is clearly visible in the trend from "full-faith-and-credit debt" to "non-guaranteed" indebtedness. In 1950, the former stood at $15.6 billion and the latter at $2.3 billion. In 1980, for the first time, the non-guaranteed off-budget debt exceeded the full-faith-and-credit debt ($102.2 billion versus $100.4 billion). At the end of fiscal year 1983, the ratio was $163.2 billion to $108 billion.[4] Projecting the trend we can estimate that by now (1986) the off-budget debt amounts to twice the budget debt. In short, it took some thirty years for the former to equal the latter, but only five to six years during the 1980s to soar to twice the size of full-faith-and-credit debt. In just four years (1980-1983), full-faith-and-credit debt rose $7.6 billion, but non-guaranteed debt soared by $61 billion, or eight times faster.

Politicians and government officials are reacting to tax resistance by placing government debt and expenditures off-budget, moving most of local government beyond the direct control of taxpayers. They are creating OBEs that, together with their beneficiaries, can be mobilized against all future taxpayer resistance to taxing and spending. In the meantime they are building a pyramid of debt that is bound to

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place a serious financial strain on local governments nationwide.

Statewide OBEs

State governments were building their own pyramids of non-guaranteed OBE debt long before local governments joined the rush in earnest. Law makers and government officials on all levels of government like to spend large sums of money on popular projects while deferring the costs through borrowing. At the state level they succeeded in creating hundreds of statewide OBEs which now account for more than two-thirds of all state borrowing. Total state long-term non-guaranteed debt now exceeds $109.6 billion while the full-faith-and-credit debt is $55 billion, or just 33.4 per cent of the total.[5]

During the 1960s and 1970s New York State paved the way. Determined to greatly expand the state's programs in education, health care, welfare, housing, and other areas, the legislature raised taxes significantly and multiplied OBE spending. Ignoring taxpayer opposition it launched numerous OBEs and quadrupled OBE debt, which at times amounted to some four times the guaranteed voter-approved debt.

When voters rejected a $100 million housing bond issue for the third time, the legislature created the Housing Finance Authority. The Authority issued massive amounts of non-guaranteed debt which alone at times exceeded the total full-faith-and-credit debt of New York State. When voters rejected a $500 million higher-education bond issue for the fourth time, the legislature created the off-budget State University Construction Fund. When the voters rejected a public housing bond issue for the fifth time, the legislature reacted by creating the Urban Development Corporation. UDC was given the powers of eminent domain, to override local zoning and building code controls, and to disregard any restrictions that hamper rapid construction. When UDC fell into default in 1975 the legislature created yet another OBE, the Project Finance Agency, which issued more OBE bonds to pay the bills of the bankrupt UDC and to cover the deficits of various other OBEs.[6] Altogether, the people of New York State were made to shoulder the heaviest debt among the fifty states, more than $27 billion by the end of fiscal 1983.[7] More than 80 per cent of this debt is off-budget, non-guaranteed, lacking voter approval. But the creditors may rest assured: OBE bonds are "moral obligation" bonds.

Underground Federal Government

Federal politicians and officials react to taxpayer demands for fiscal restraint in the same way as local and state politicians and officials: they go underground. The Congressional Budget and Impoundment Act of 1974, which merely announced the need for fiscal discipline without actually curbing Federal spending, produced a rush to the underground. Since then Congress has been steadily proclaiming the need for discipline and balanced budgets, but simultaneously preparing the way for placing Federal spending off-budget.

The U.S. Congress uses three avenues of escape. First, it simply deletes from the budget numerous agencies that are Federally owned and controlled. Beginning with the Export-Import Bank it subsequently removed the Postal Service Fund, the Rural Telephone Bank, the Rural Electrification and Telephone Revolving Fund, the Housing for the Elderly or Handicapped Fund, the Federal Financing Bank, the U.S. Railway Association, and the Pension Benefit Guaranty Corporation. More recently it created two off-budget entities to carry out energy programs: the Synthetic Fuels Corporation and the Strategic Petroleum Reserve Account. Total off-budget outlays by these entities are estimated at $10 billion in fiscal year 1984 and $12.5 billion in fiscal 1985.[8]

A significant factor in financing Federal off-budget activities is the Federal Financing Bank (FFB), which began operation in 1974. Although it is part of the Treasury Department, its transactions are excluded from the budget totals. Its lending is not counted as budget outlays although it finances its operations by borrowing from the Treasury Department. It performs three off-budget functions: It lends money to government agencies; it purchases guaranteed loan assets from Federal agencies; it disburses loan funds directly to borrowers when the loan

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is guaranteed by a Federal agency. Total net outlays of the Federal Financing Bank are estimated at $7.3 billion for fiscal year 1984 and $10.4 billion for 1985; total loans outstanding are calculated at $114.1 billion and $124.6 billion respectively.[9]

The second avenue of escape to the underground leads to a number of privately owned, but government-sponsored and controlled enterprises (GSEs). They are established to carry out government programs; they redirect credit by acting as financial intermediaries to promote greater amounts of lending to certain beneficiaries, seeking to favor lenders and borrowers especially in housing, education, and agriculture. Exempt from state and local taxes and from Securities and Exchange Commission regulations and requirements, these enterprises maintain direct lines of credit to the U.S. Treasury that range up to $4 billion.

There is the Federal Home Loan Bank System that promotes home ownership through the extension of credit to savings and other home financing institutions; the Federal Home Loan Mortgage Association that bolsters the availability of mortgage credit and liquidity in the conventional residential mortgage market; the Federal National Mortgage Association that purchases conventional and privately insured mortgages originated by mortgage bankers, savings institutions, commercial banks, and other primary lenders; the Student Loan Marketing Association that seeks to expand the amount of funds available for insured student loans; the Farm Credit System, which is a cooperative providing credit to farmers and ranchers, their cooperatives, farm-related businesses, commercial fishermen, and rural homeowners. Altogether, the government-sponsored off-budget enterprises are reported to have held $314.1 billion in loan assets in 1984, $360.1 billion in 1985, and $405.9 billion in 1986.[10] At the present rate of growth the GSEs can be expected to achieve a trillion dollar portfolio some time in 1993.

Advancing on its third avenue of escape, making government appear smaller than it actually is or making government activity seem to disappear altogether, the federal government is conducting over 150 loan guarantee programs that affect and redirect private funds. It guarantees the payment of the principal and interest of a loan in whole or in part in the event of default. It thus allocates economic resources by providing credit to borrowers who do not normally qualify or would have to pay higher rates. All such guarantees result in subsidies to the borrowers and significantly alter the allocation of credit. They channel private credit toward Federally selected uses, which reduces the quantity of credit available to those borrowers who do not receive assistance, and increases their interest costs.

Loan guarantees are not included in government outlay totals. Nevertheless, most Federal functions call for credit programs that not only grant loans but also issue loan guarantees. The loans may be off-budget, the guarantees usually are. The Federal Housing Administration guarantees home mortgages as does the Veterans Administration. The Commodity Credit Cororation provides loan guarantees for export sales. The student loan program provides guarantees of education loans to graduate and undergraduate students. Excluding the guaranteed loans disbursed by the Federal Financing Bank and other off-budget enterprises, the total volume of guaranteed loans outstanding is estimated at $363.8 billion in 1983 and $438.8 billion in 1986. At this rate of growth it can be expected to exceed one trillion dollars in 1994.[11]

Flexibility and Innovation

Prudent politicians and OBE officials are unlikely to admit the implications. As public servants imbued with a sense of the public interest, they favor off-budget activities. In their hands OBEs are said to be more flexible, innovative, and economical than government agencies. They may even be used to circumvent voter disapproval expressed repeatedly at the ballot box.

Zeal for the public good is the characteristic of a man of honor. But is it a public good to circumvent the majority decision of voters? Is it a public good to engage in off-budget activity that benefits certain interest groups at the expense of the public? Is it in the public interest that the activities undertaken by OBEs be carried out by political institutions rather than economic organizations? Is government flexibility and innovation in economic matters really a de-

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sirable feature of government or just another term for subterfuge, waste, and arbitrariness? And even if an OBE should be more flexible, innovative, and economical than a government agency, why should it be sheltered from periodic reassessment of its performance in either the political arena or the marketplace?

There are two methods for the conduct of human affairs.[12] One is bureaucratic management, the other is profit management. The former is suitable where services have no price on the market and therefore cannot be tested by cost and price calculations. A police department, an army regiment, or an air force squadron, no matter how valuable their services may be, cannot be operated as gainful enterprises. Bureaucratic management is the only method for their conduct. Profit management is the only economical method for enterprises that render services in the marketplace; it receives its social legitimacy from the patronage of customers who dictate the production process. Where the profit motive is the guide, business must adjust its operations to the desires of customers. Profit and loss considerations force every businessman to cater to wishes and render services the consumers deem most important. The price and cost structure guides businessmen in their task.

An OBE is an enterprise owned and operated by government. At its best it springs from the notion that private enterprise is failing to provide a desirable service or that it is providing it unsatisfactorily. At its worst it serves as the private domain of politicians and officials dispensing favors to special groups, politicking with taxpayer money, building political empires, and lining their own pockets. The public may stand idly by because it may be persuaded that individual enterprise is failing to do the job. Moreover, the public may be suspicious of the profit motive, of profit management, and the private property order. Many people are anxious to substitute political action and political authority for voluntary action and consumer supremacy. They are longing for a command system.

Whatever the motivation may be, OBEs manage to escape the strictures and constraints under which government entities usually are forced to labor. There are regulations and controls on government entities because of the open-endedness of government expenditures. Every able manager of a government agency or enterprise knows how to improve the services of his office through additional expenditures. Every commissioner of police and commander of an army regiment or air force squadron can use more money as can every provost of a state university and director of a city hospital. Every manager of a municipal swimming pool or city park can improve the service to the public provided he is granted more money. Undisturbed by profit and loss considerations he is an ever eager spender of government money. But public funds are limited no matter how they are stretched on- and off-budget. Therefore, government must constrain and delineate the spending enthusiasm of its managers; it must prescribe many details of management, in particular, the quantity and quality of the services to be rendered, the hiring and remuneration of labor, the purchase of materials and supply, and so on. In short, where profit and loss considerations do not apply or are rejected for political reasons, the only way to make managers responsible to the public is to constrain their discretion by rules and regulations.

The flexibility which OBE managers so diligently seek is the ability to escape rules and regulations. It is cleverness to escape the traditional constraints on government. It is "government unlimited" for the construction and maintenance of public housing, libraries, theaters, stadiums, airports, and zoos. OBE flexibility not only reduces the people but also deceives them. After all, OBEs do not submit to any proof of effectiveness nor do they yield to elections and referenda. They operate under no immediate constraints of consumers and no responsibility to voters. When losses are suffered they do not cease to operate. They pursue what they call "more important tasks," "more noble objectives," allocating funds to "worthy" and "needy" causes that differ from the orders given by customers. Economic considerations give way to "social objectives" and self-serving ends.

Winners and Losers

The "noble objectives" which its sponsors so loudly proclaim usually are economic favors to some people at the expense of others. A trans-

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portation OBE may charge a low fare that subsidizes commuters. A community hospital may render services at rates that subsidize some patients at the expense of taxpayers. A city parking authority may offer "free parking" to city employees. It may do so without approval or sanction by taxpayers who are expected to bear the deficits.

Unfortunately, the "noble objectives" may be replaced by commonplace objectives on the part of those individuals who create, manage, and finance the OBEs. The altruistic motive of rendering service to the poor and underprivileged often turns into scandalous pursuit of self-interest by politicians, OBE boards and managers, employees, bankers and underwriters, attorneys, consultants, architects, engineers, and many others who profit from OBEs. The transfer benefits thus accrue to interested parties and promoters, leaving few benefits but many frustrations to the stated beneficiaries.

Politicians are the primary beneficiaries of OBEs. Fiscal limitations of any sort restrict their power to engage in transfer activity; OBEs evade the restrictions and ignore voter reluctance at the polls. By making political activity seem to disappear and permitting politicians to resume spending, OBEs enable them to preach fiscal frugality on-budget while practicing political largess off-budget.

OBEs inevitably give rise to special-interest groups that can be depended on to lend vocal support. Bankers, in particular, have a vested interest in the growth of off-budget enterprises, receiving income not only as investors in OBE projects but also as trustees on behalf of bondholders and as financial advisers to the entity. Bankers may act as underwriters of bond issues which OBEs, in contrast to government agencies, usually place on a noncompetitive basis, granting higher profit margins to underwriters. Attorneys always join the parade, acting as "bond counsels." They derive generous income from reviewing indenture specifications and issuing opinions on the deductibility of bond interest from Federal taxation. Their fees tend to rise with the volume of debt issued.

OBE managers and members of the board have a vested interest in OBE prosperity and growth. Appointed by a governor, mayor, or city council, *directors* have ample latitude to pursue their own self-interest. They may engage in business activity that directly supplements that of the OBE. They may speculate in real estate in anticipation of OBE activity. They may manipulate OBE contracts or place supporters in patronage positions. At the least, they may guide OBE dealings in such a way that friendly politicians and their supporters derive some benefit from the enterprise.

OBE *managers* who direct the day-to-day operations usually operate in secrecy and undisturbed by audits by the government entity that created the OBE. However, the managers are ever mindful of the politicians to whom they owe their jobs and, therefore, are quick to accommodate political pressures by providing patronage positions. If an OBE succeeds in generating revenue to cover its operating costs and debt service and thus manages to be financially independent, the excess revenue is held internally to be used by management. OBEs pay no taxes or license fees, post no performance bonds, face little paperwork and regulatory tape that strangle individual enterprise. They pay no dividends to the sponsoring unit of government, but usually earn enough to grant generous fringe benefits to managers and employees.

The Burden on Taxpayers

When OBEs fail to cover their costs, taxpayers must brace for a summons. The number of OBE bankruptcies is rather small because politicians cannot afford to let their projects fail and their artifices to become visible. They are quick to use tax revenues to provide government subsidies and grants to avoid default. Although there is no explicit commitment for government to come to the rescue, there is what politicians call a "moral commitment" to cover a shortfall. It serves to reassure investors who are urged to buy the bonds. Judging from the ready acceptance of OBE obligations, American bankers and other institutional investors continue to be reassured by such "moral commitments."

Taxpayers must bear, in one form or another, the cost of OBE loss and failure. But even when OBEs manage to operate in the black, they crowd out competing borrowers and allocate capital and labor to political uses rather than to

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economic employment. They withdraw scarce economic resources from urgent want satisfaction so that political interests can be served, and channel capital from more productive to less productive employment, which depresses labor productivity and lowers labor income. No matter how efficient an OBE may be, it amounts to malinvestment and maladjustment because it is a creation of politics. After all, if an economic project is expected to be economical and profitable because consumers will patronize it, it will be developed by individual enterprises. If businessmen shun it and private investors avoid it, it is likely to be uneconomical.

A few OBEs are said to be highly profitable, which may permit their managers to embark upon other economic activities. Toll road and bridge authorities may be very profitable, charging whatever the traffic will bear. The Port Authority of New York, for instance, is using its control over airports, bridges, toll roads, and harbor facilities to build a vast business empire. But some of its revenue constitutes monopolistic gain that enriches the Port Authority and its dependents at the expense of the public. This leads to poor service and breeds political corruption. But even in service, honor, and integrity, a profitable OBE is a malformation that rests on political privilege. Exempted from taxes or license fees, and protected by regulation and restriction, it serves "higher ends" which are uneconomical ends. It receives its legitimacy from political power rather than the patronage of customers.

Industrial Development Agencies

The businessman's "special" is the industrial development agency (IDA) that issues tax-exempt industrial revenue bonds (IRBs) and finances favorite private enterprises. IDAs are the fastest growing type of all the OBEs and are estimated to exceed $10 billion in annual bond sales. Most of them issue obligations without the "full-faith-and-credit" of the sponsoring government; their operations are off-budget and beyond the reach of voters and taxpayers. Their obligations are non-guaranteed, that is, they depend on the credit of the private borrower and the revenue from the development project. If the project fails, the bondholders bear the loss. If it stays alive, the private borrower pockets the difference between the tax-exempt rate and the market rate of interest. He is enjoying a privilege that is created and bestowed by politicians.

The friends of IDAs are quick to point out that the agencies are instrumental in providing financial resources to private firms, especially small businesses, that they facilitate production where there would be none otherwise, that they raise productivity and reduce unemployment. IDAs are said to confer a "public benefit" through the development of commerce and industry and the promotion of the general welfare. Of course, such rhetoric builds on the assumption that private financial institutions are failing to provide the necessary resources to many firms, especially small businesses, that private lenders fail to encourage production where it is needed, and that they do not raise productivity and do not reduce unemployment. IDA rhetoric tacitly assumes that private enterprises do not confer a "public benefit" and do not promote the general welfare.

Unfortunately, the rhetoric differs from the reality. Every businessman enjoying customer patronage, whether he be a baker, banker, or barber, is conferring a public benefit, raising production, and reducing unemployment; businessmen earn their livelihood by producing products and rendering services wherever they are needed. Countless entrepreneurs are forever searching for new opportunities to embark upon needed production. If they find none, it is likely that no economic opportunity exists. If politicians discover an "opportunity," the project is likely to be a transfer scheme that benefits some people at the expense of others. Transfer allocation replaces market allocation, serving political interests that are contrary to the interests of the general public.

IDAs often assist ailing and failing businesses that either are losing the patronage of customers or making inefficient use of their resources. In both cases IDAs not only countermand consumer sovereignty, that is, public interest and control, but also promote economic inefficiency and incompetence. Moreover, by granting tax exemptions to special-interest groups, IDAs create vocal groups of grateful supporters who

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can be depended upon to defend and promote IDAs and the use of IRBs. Small businesses are not among the supporters; they are the least likely recipients of IDA largess because their voices may not be audible in the noise of corporate clamor for privilege. Giant corporations that have the labor power to deal with numerous IDAs, that enjoy expert legal assistance, and command political clout, are the primary beneficiaries of IRB financing.

Large manufacturing and retailing firms make extensive use of IRBs to finance expansion projects. In fact, because McDonald's Corporation financed the construction of hundreds of new restaurants with IRBs, IDA obligations are frequently called "burger bonds" and their beneficiaries are referred to as "burger debtors." Obviously, "burger bonds" are instrumental in destroying countless small enterpises that cannot compete with subsidized McDonald's restaurants or K-Mart stores. The voices of the businesses that perished as a result of burger-bond favors are no longer audible, but the voices of the giant corporations, investment bankers, and law firms that benefit from IRB sales, are heard clearly in the chorus of special interests.

The net effect of IRB finance is a gross distortion of American business and outright waste of productive funds. IDA projects inflict revenue losses on governmental treasuries, and lead to rising interest rates and higher borrowing costs for all borrowers, public and private. But above all, they call for further politicalization of economic life. On all levels of government, party politicians and government officials now sit in judgment of economic phenomena. Local politicians adjudge the need of a project and adjudicate the benefits to be bestowed. Federal officials, by offering or withdrawing Federal tax exemption, hold veto power over them all. The Revenue Expenditure and Control Act of 1968 provides the legal setting; it withdrew tax exemption from all IDAs except those financing air and water pollution control equipment, airports, docks, wharves, electricity, gas and water services, industrial parks, parking, mass transportation, housing, sewage, sports facilities, and trade shows and convention centers. The act offers tax exemption to all issues not exceeding $5 million to finance plants and equipment for industrial facilities, which was later raised to $10 million.[13] It is obvious that American economic life is molded and guided by such powerful directives. But it is neither efficient nor equitable to grant tax relief to some businesses and withhold it from others.

Political power intoxicates the best hearts. No man is wise enough, nor good enough, to be trusted with much political power. Constitutional government is built on this very knowledge; it is cogent evidence of the distrust of human beings in political power. It rests on a deep conviction that individuals vested with authority must be restrained by something more than their own discretion—by bills of rights, laws, rules, regulations, and mandates by the people they govern.

Off-budget government escapes most such restraints and opens the gates of political power. It escapes the constraints because changing thoughts and values are either moderating the common distrust of political power or the distrust is failing to restrain the growing powers of government. The deep conviction that government must be restrained is giving way to the belief that government must be able to engage in any economic activity its agents deem necessary. It is yielding to the ancient notion that political rulers are endowed with extraordinary powers. Unfortunately, they are not. But they are ever eager to ignore the traditional constraints and follow their own caprice. □

1. Cf. James T. Bennett and Thomas J. DiLorenzo, *Underground Government: The Off-Budget Public Sector* (Washington, D.C.: Cato Institute, 1983), p. 4 *et seq.*
2. Pennsylvania Department of Community Affairs, *Directory of Municipal Authorities in Pennsylvania—1984* (Harrisburg: Department of Community Affairs, 1984), Statistics, pp. 9-11.
3. *Facts and Figures on Government Finance*, 23rd edition (Washington, D.C.: Tax Foundation, 1986), p. f29. Data as of the end of fiscal year 1983.
4. *Ibid.*
5. *Ibid.*, p. e61. Data as of the end of fiscal year 1983.
6. James T. Bennett and Thomas J. DiLorenzo, *ibid.*, pp. 60-68.
7. New York is followed by California with a state debt of $12 billion, New Jersey $10.3 billion, Illinois $7.8 billion, Massachusetts $7.4 billion. *Facts and Figures on Government Finance*, pp. e62, e63.
8. *Budget of the United States Government*, Fiscal Year 1986, pp. 6-11.
9. *Special Analyses, Budget of the United States Government*, Fiscal Year 1986, p. F-42.
10. *Special Analyses*, p. F-23.
11. *Special Analyses*, p. F-20.
12. Cf. Ludwig von Mises, *Bureaucracy* (Spring Mills, Pa.: Libertarian Press, 1983).
13. James T. Bennett and Thomas J. DiLorenzo, *ibid.*, p. 125.

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Socialism and Incentives

by David Osterfeld

One of the major issues of socialism is that of incentives. Critics often argue that because it "abolishes" profits and losses, socialism eliminates incentives. Defenders maintain that since it eliminates the role of capitalists and entrepreneurs, workers under socialism "produce for themselves." Therefore, it is held, socialism actually maintains or even stimulates incentives.

The issue of incentives is vitally important. But the traditional way of presenting this issue is misleading. The real issue is not the presence or absence of incentives, *per se*. Incentives cannot be eliminated. They are omnipresent. Every politico-economic system generates a set of incentives. The real issue is whether a particular set of incentives is "right" or "wrong," i.e., whether it is appropriate to attain the goals sought or claimed for it by those implementing the political and economic policies.

The Record

The goals of both socialism and capitalism are identical: prosperity and freedom. This identity of goals makes a comparison of their performances relatively easy. The differences are indeed striking. Socialist systems have compiled an uninterrupted record of economic failure and political oppression.

The Soviet Union contains some of the most fertile agricultural land in the world. Prior to the communist revolution of 1917 Russia was the world's largest exporter of grain. Collectivization of agriculture during the 1920s and 1930s was quickly followed by dramatic declines in agricultural output. Between five and ten million Russians died of starvation during these years with twelve to thirteen million more saved by food donated from the Western capitalist countries. Today, the Soviet Union employs nearly 25 per cent of its labor force and invests in excess of 25 per cent of its capital in agriculture, both of which are far higher than any other industrialized country. Despite its tremendous agricultural potential, the Soviet Union is now the world's largest food importer. It now imports nearly one-third of its food, and this is despite having grudgingly permitted the establishment of private mini-farms one-half to one acre in size. These private plots comprise only three per cent of the total cropland yet produce 27 per cent of the nation's food. It is unlikely that the Soviet Union could exist without these plots.[1]

This pattern is repeated with monotonous regularity throughout socialist countries. Most of the Eastern European nations are blessed with fertile agricultural land. The adoption of socialist policies in most of these countries has been quickly followed by declining production, food shortages, and bread lines.[2]

Agricultural output in China was virtually stagnant during the 25-year reign of Mao Tse-tung. The Chinese government now acknowledges that during just one three-year period, the so-called "Three Difficult Years" from 1959-62, between 20 and 30 million Chinese died of

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starvation. By the time of Mao's death in the mid-1970s the average Chinese was less well fed than he was during the 1920s or even during the Japanese occupation of the 1930s. Beginning in 1977 Mao's successors abandoned his "socialist experiment." As a result, says *The Economist,* "food grain output has increased by 12 per cent a year since then, despite bad weather in 1980."[3]

Out of a population of only eight million, two million Cambodians died of starvation in the late 1970s after socialist measures were applied to agriculture by the Khmer Rouge.

In 1957 Ghana became the first African country to receive its independence, quickly followed by a number of others. At the time of independence famine had become a thing of the past in Africa. Yet within a few years the continent was being ravaged by perennial famines. Millions were dying from starvation or diseases associated with malnutrition. Once again, the correlation is striking.

Ghana, as Sven Rydenfelt notes, "is one of the world's best endowed countries: fertile soil, ample rainfall, and a favorable climate. . . ."[4] At the time of independence it was the world's leading producer of cocoa. But after President Kwame Nkrumah adopted what he termed "African socialism" Ghana's cocoa production declined by 50 per cent. Similar production declines occurred in other crops such as cassava.

Like Ghana, much of Ethiopia is ideally suited for agriculture. "Ethiopia is one of those countries so richly endowed by nature," agronomist Doreen Warriner wrote in 1973, "that the agrarian structure, feudal in every sense of the term, does appear to be the only constraint on development."[5] In March 1975 the feudal period ended; "Ethiopian socialism" began. But instead of development, agricultural performance, poor to begin with, deteriorated rapidly. It is now well established that over one million Ethiopians have died of starvation in the most recent famine.[6]

And in Tanzania President Julius Nyerere began to collectivize agriculture in 1967. A food exporter in the late 1960s, Tanzania imported $18 million worth of food in 1980 despite the fact that nearly 70 per cent of its population was engaged in agriculture.[7]

In marked contrast to the socialist countries of the world which almost invariably find themselves on the verge of starvation despite employing between 25 and 90 per cent of their workforce in agriculture, the more capitalist countries of Western Europe and North America are able to produce huge food surpluses while employing only three to four per cent of their work force in agriculture.

A brief overview of the data reveals a clear correlation between economic systems and economic performances: socialist economies have performed poorly; capitalist economies have performed quite well. The correlation is much too strong to be attributed to mere chance. To understand this correlation we need to examine the very different incentives generated by the two economic systems, and then look at how individuals would be expected to respond to these different sets of incentives.

The Incentives

Assume that an individual, Clem, is a member of a socialist commune. Assume that there are 1,000 members of the commune and that the output is divided equally among the members. (For the sake of simplicity we will ignore matters such as capital investment.) Let's say that the production of the commune totals 100,000 bushels of wheat a year, or an average of 100 bushels per member. At a price of, say, $5.00 per bushel total receipts for the commune are $500,000, or $500 per member. The question is: How is Clem likely to behave? Will he work hard? Will he shirk?

Let's assume that Clem is both naturally industrious and socially conscientious. He is concerned about the overall good of the commune. As a result, Clem works very hard and increases his production from 100 to 150 bushels of wheat a year. This increases the annual output of the commune from 100,000 to 100,050 bushels. At $5.00 per bushel the income of the commune increases from $500,000 to $500,250. Since total income is divided equally among the members, the income of each member rises from $500 to $500.25 a year. Thus, because of his extra work Clem's production increased 50 per cent. But his income increased by a mere 25¢ or by 0.05 per cent. Moreover, the income of the other 999 members also in-

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creased by 25¢ even though they did not work any harder and their productivity did not increase.

Clearly, Clem's activities benefited everyone in the commune *except himself.* Everyone else had his income increase without increasing his work. But Clem's income increased only 25¢ despite increasing his work load by 50 per cent. While the *benefits* of the extra production were *diffused* throughout the commune, the *costs* were *concentrated* on Clem. Given the distributional policies of the socialist commune it is clear that Clem's decision to increase his work was "irrational," and it is highly unlikely that he would continue his Stakhanovite exertions, thereby subjecting himself to continued exploitation by the other members of the commune. In short, *the distributional policies of socialism penalize industrious behavior.*

Deeper insight into socialist incentives can be obtained by looking at the situation from a different angle. Assume that the conditions of the commune are the same as described above. But now assume that instead of increasing his production Clem begins to slough off, to shirk. Assume that he cuts his production from the average of 100 bushels a year to only 50. What are the effects? The total output of the commune drops from 100,000 bushels to 99,950 bushels. Its total receipts therefore fall from $500,000 to $499,750. As a result each member's income declines by 25¢, from $500 to $499.75. Yet, they have not, we are assuming, reduced their work loads. Clem's income is also reduced 25¢. But he has cut his work load in half. This is a great deal for Clem! He has obtained a 50 per cent increase in leisure at a cost to himself of only 25¢, or a 0.05 per cent reduction in income. In short, since the *cost* of Clem's shirking is *diffused* among all the members of the commune while the *benefits* are *channeled* to Clem, socialism creates a strong incentive to shirk. The problem, of course, is that there is no reason why this is limited to Clem. It applies with equal force to all members of the commune. But if all members shirk, little or nothing will be produced and the commune will quickly find itself in dire straits.

The basic problem of socialism is the imbalance or asymmetry it creates between costs and benefits. At times the costs are diffused throughout the entire community while the benefits are concentrated on one or a few members. At other times it is the costs that are concentrated while the benefits are diffused. The result is that socialism, *by its very nature,* rewards sloth and indolence and penalizes diligence and hard work. It therefore establishes incentives that are incompatible with its self-proclaimed goal of material prosperity. The inherent dilemma of socialism is that individuals who respond "rationally" to the incentives confronting them will produce results that are "irrational" for the community as a whole.

The Solution

The solution to the dilemma of socialist incentives lies in what economists call "internalizing the externalities," i.e., making sure that *both* the costs and benefits of individual actions are borne by the individual and do not spill onto "society" as a whole. There are two distinct methods by which this can be accomplished: private property or coercion.

Assume that instead of living in a commune Clem lives in a market society and owns his own farm. If Clem would increase his production, just as he did in the commune, from 100 to 150 bushels, he would receive the full benefit of the additional output. The result, again assuming $5 per bushel, is that Clem's income would increase not by a mere 25¢ but by $250, going from $500 to $750 per year. Conversely, by reducing his production from 100 to only 50 bushels, Clem's income would fall not by 25¢ but by $250, dropping from $500 per year to only $250. Thus, private property automatically "internalizes the externalities," i.e., it channels both the costs and the benefits of each individual's actions onto that particular individual. In doing so it creates incentives that automatically penalize indolence and reward hard work and productivity. These are the exact opposite of the incentives generated by socialism.

To permit private property would be to acknowledge the failure of socialism. As a result, socialist systems have allowed private property only grudgingly and on a very restricted basis. Rather than admit failure socialists have usually opted for the other means to internalize externalities: coercion. To counteract the incentive

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to shirk, the socialist rulers can establish production quotas for Clem and the other members of the commune and then threaten them with penalties for failure to meet the quotas. Since coercion will stimulate production only if the penalties are severe enough to counteract the incentive to shirk, socialism must reduce the population to virtual slavery. But even if coercion does stimulate production the increase will be far less than under private property. Since it insures that each producer will receive the total value of his production, private property provides the incentive to *maximize production.* Coercion, on the other hand, is only able to establish the incentive to produce the *minimum required* to avoid punishment. It is no accident that socialism ends up enslaving its workers. Nor is it an accident that free men have always been more productive than slaves.[8]

Socialism promises prosperity and freedom. But the incentives created by socialism place it in a dilemma. If the workers are allowed to remain "free," they will not produce. To stimulate production they must be denied their freedom. Thus, socialism cannot achieve *both* prosperity *and* freedom. Usually it results in neither. □

1. See Sven Rydenfelt, *A Pattern for Failure* (New York: Harcourt, 1983), pp. 27-45; Hedrick Smith, *The Russians* (New York: Ballantine, 1984), pp. 264-84; and Marshall Goldman, *USSR in Crisis* (New York: Norton, 1983), pp. 63-87.
2. Rydenfelt, pp. 46-79.
3. "In Praise of Peasants," *The Economist* (February 2, 1985), pp. 86-87. Also see Stephen Mosher, *Broken Earth* (New York: Free Press, 1983), pp. 28-52. Especially see pages 37-45. Mosher quotes a Chinese peasant as saying that "People aren't lazy all the time, just when they do collective labor. When they work on their private plots, they work hard. There is a saying, 'Energetic as dragons on private plots, sluggish as worms on the public fields.' "
4. Rydenfelt, p. 113.
5. Quoted in Gene Ellis, "Land Tenancy Reform in Ethiopia: A Retrospective Analysis," *Economic Development and Cultural Change* (April, 1980), p. 526.
6. See David Osterfeld, "Famine in Africa," *The Journal of Social Political and Economic Studies* (Fall, 1985), pp. 259-74.
7. *Ibid.*, pp. 265 and 269; and Rydenfelt, pp. 117-24.
8. Two points are worthy of note. First, the reliance on devices such as "workpoints" has been ignored. To the extent that they work they constitute a clear violation of the principle of egalitarianism that permeates socialist literature. Moreover, since "workpoints" are a reflection not of the preferences of the consumers but of the socialist ruler(s)' opinion of the value of one's contribution, "workpoints" are not only economically arbitrary but also reinforce the concentration of political power in the hands of the rulers. Second, the problem of incentives is not the sole reason for the poor performance of socialist economies. The related problem of economic calculation is also vitally important. On this issue see Ludwig von Mises' classic *Socialism* (London: Jonathan Cape, 1969); Don Lavoie, *National Economic Planning: What Is Left?* (Cambridge: Ballinger, 1985); and David Osterfeld, *Freedom, Society and the State* (San Francisco: Cobden Press, 1986), pp. 221-30.

In Future Issues . . .

December

- "Should We Organize for Liberty?" by Robert J. Bidinotto
- "Can 'Industrial Policy' Work?" by Frank W. Bubb
- "The Illegality of Legal Tender" by Philip W. Newcomer
- Index for 1986

January

- "The Liability Crisis" by Ridgway K. Foley, Jr.
- "Freedom in the Dock" by Howard Baetjer Jr.
- "Supermarket Myths" by Melvin D. Barger

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The Forgotten Dream

by John K. Williams

In the biblical book of *Daniel* is a story about a king who dreamed a dream so disturbing that it wakened him from his sleep. Bewildered and troubled by his dream, the king decreed that his advisers be aroused and brought before him. The advisers were assembled, the signal for silence was given, and the king rose to his feet.

"I have dreamed a dream," announced the king, "and my spirit was troubled to know the interpretation." Then silence again reigned.

One person, bolder than the rest, broke the silence. Said he: "O king, live for ever! But tell thy servants the dream, that we may show the interpretation."

All eyes turned to the king. The expression on his face changed. Those present sensed that something was strangely amiss. At long last the king again spoke. "I forget," he said. "The thing has gone from me."

The king, however, soon regained his composure. He instructed his advisers first to recover the lost dream and then to interpret it!

Men and women today who are committed to liberty face a task not unlike that thrust upon those royal advisers of old: the recovery of an all-but-forgotten dream. That dream, the dream of liberty and a social order fostering liberty, is perhaps as old as humanity. It found voice in the seers of ancient Israel and the thinkers of ancient Greece. It spoke at the signing of Magna Carta which made the rights of kings subservient to law and again in 1689 when the English Bill of Rights proclaimed that Parliament must also be so subservient. It was heard in the measured reasoning of John Locke and in the impassioned writings of the poet John Milton, who declared: "Our liberty is a blessing we have received from God himself. It is what we are born to. To lay this down at Caesar's feet were a degrading of our very nature."

The dream of liberty lured the Pilgrim Fathers to venture the Atlantic for a new and unspoiled land, placing their confidence in the dream and their own power to make that dream come true. It captured the hearts of the multitudes in this land; for years before the American Revolution was fought a veritable flood of tracts and books and letters and newspaper articles made real to the people the great principles of liberty, human rights, and limited government. It thundered in a Declaration of Independence which in its substance far exceeded its title, in a Constitution which built security amid the portents of catastrophe, and in a Bill of Rights which was the consummation of what began with Magna Carta—all men and women being perceived as the servile subjects of no one, certainly not of a government they themselves had made.

Thus a nation "conceived in liberty" was born. The dream had taken on flesh and blood, and a free people began to enjoy the material fruits of liberty.

Yet let me underscore the truth that for most of human history, liberty existed only as a dream. The free society, from the perspective of history, is an abnormality, a departure from the submission and tyranny which has been the normal lot of the human race. It is therefore, perhaps, not surprising that men and women en-

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joying the reality of liberty and its fruits should revert to the old and established ways, forgetting the dream—the ideas and ideals—of which the reality was born.

Yet such has most certainly happened. Free societies have departed from the dream that gave them birth, drifting back to the old authoritarian world of caste, of legally entrenched privileges, and of an economic system coordinated by political decrees. Sadly, many who sense that a once free people have departed from the principles which secured their liberty and furthered their material well-being cannot really say what those principles are. When asked to tell of the dream enshrining those principles they can only respond as did the king of old: "I forget. The thing has gone from me." Hence the task that is ours: recovering an all-but-lost dream.

Ideas and ideals—dreams if you will—are fragile and fleeting. It may thus sound extravagant to suggest that such down-to-earth and concrete realities as political and economic structures can be born of ideas and ideals and, indeed, be destroyed by ideas and ideals. Yet I submit that a reading of history, both of the distant past and of more recent years, substantiates such a claim. John Maynard Keynes, on this matter at least, was correct. His words warrant repetition: "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economists. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back . . . [S]oon or late, it is ideas . . . which are dangerous for good or evil." If we would defend liberty against its enemies, we must seek to recover for ourselves and for others the all-but-forgotten dream of which the free society was born.

Democracy

Perhaps the most invidious expression of our forgetfulness is our equation of the "free society" with "democracy." It is perhaps helpful to remind ourselves of the singular lack of enthusiasm for "democracy" displayed by the Founding Fathers of this nation.

Consider the words of James Madison: "[D]emocracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security, or the rights of property; and have in general been as short in their lives as they have been violent in their deaths."

Samuel Adams was no less suspicious of democracy: "Remember, democracy never lasts long. It soon wastes, exhausts, and murders itself. There never was a democracy that did not commit suicide."

Many similar statements could be cited, drawing on the words of those who made liberty a reality in this nation, and their forebears and contemporaries in the struggle for liberty from the Old World. "Democracy" was not the name of the dream they struggled to make a reality: Indeed, they perceived a very real tension between "democracy" and the goal for which they fought.

"Democracy" is a word with a long history. It looms large in *The Republic* of Plato and the political writings of Aristotle. Historically speaking, it signifies a particular answer to a very specific question: "Who shall be entrusted with the coercive power of government?" Shall that power be entrusted to an absolute monarch? To an aristocracy? To a plutocracy? To the majority of the populace? These are questions which exercised the minds of those who through the ages dreamed of liberty.

Yet such thinkers realized that these questions were secondary to the crucial question of *what power should be ascribed to government,* regardless of who exercised that power. The great cry of those who dreamed of a free society was not that majority rule was desirable, but that tyranny was intolerable, be the tyranny that of a king despotically ruling his subjects or that of an aristocratic class despotically ruling their alleged inferiors or that of a majority despotically ruling a minority.

If by "democracy" one signifies simply majority rule, there is no answer to the claim of James Madison that "on a candid examination of history" we shall find democracies characterized by "turbulence, violence, and abuse of

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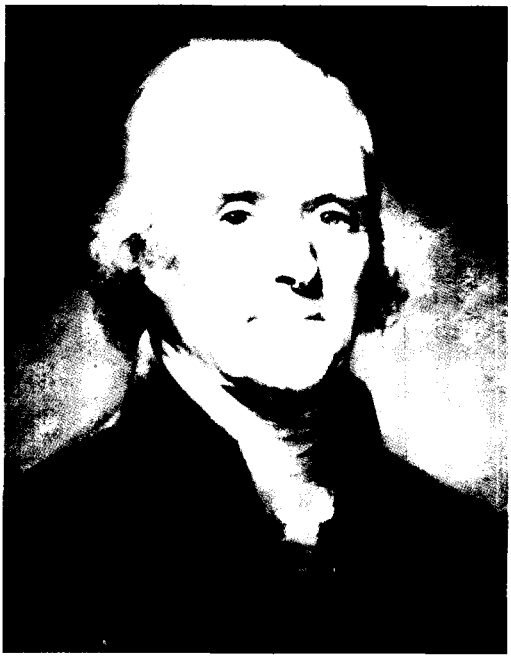
power by the majority trampling on the rights of the minority." Thus it was that Thomas Jefferson, discussing the powers of legislatures in Virginia, reminded his fellow-citizens that "[an] elective despotism was not the government we fought for." To make the same point another way, the Founding Fathers and the thinkers whose works they built upon perceived that the words "despotism" and "tyranny" can only be defined in terms of the purposes for which force and the threat of force may be used by government. Specifying the identity of those who exercise the power of government says little or nothing about the purposes for which and circumstances in which that power may legitimately be used.

Those who dreamed of liberty and sought to make that dream come true were essentially agreed as to the function of government and thus as to the proper domain of government activity. "Governments are instituted among Men" to secure the equal liberty of all to formulate and strive to realize their own visions of the "good life." The equal liberty of all precludes any attempt to realize such a vision by coercive violence. The proscription of such violence, the protection of individuals from any person or group of people initiating or threatening to initiate such violence, is the task of government. And that is all.

The seriousness with which this insistence once was taken is perhaps illustrated by Alexander Hamilton's objections to the Bill of Rights: "I . . . affirm that bills of rights, in the sense and to the extent in which they are contended for, are not only unnecessary in the proposed Constitution but would even be dangerous . . . . For why declare that things shall not be done which there is no power to do? Why, for instance, should it be said that the liberty of the press shall not be restrained, when no power is given by which restrictions may be imposed?"

The Purpose of Government

Our forefathers in the struggle for liberty were well aware that force is the essence of government. What is distinctive about the classical liberals' understanding of government is the insistence that the sole legitimate purpose for which governments may exercise coercion



Thomas Jefferson

is the protection of individuals from coercion. Should any government use its powers to promote one group at the expense of another, then that government becomes, in Frederic Bastiat's words, an agency of "legal plunder." Its edicts become a perversion of law, for the law, "instead of checking injustice, becomes the invincible weapon of injustice."

Whether these edicts enjoy majority approval is irrelevant. Indeed, from the perspective of the classical liberals, to describe as "government under the law" the directives issued by elected representatives of the majority, however much these directives discriminate in favor of special interest groups, is to torture language. Such constitutes not "government under the law" but "lawless government."

When I insist that the question, "For what purpose and in what circumstances is the coercive power of government appropriately used?" is distinct from the question, "Who should exercise that power?" I am not implying that the latter question is insignificant, or that an answer to this question in terms of democracy is to be rejected. What has failed to protect the liberties of all is not democracy as such but a particular form of democracy, namely, "unlimited democracy." You may recall a much admired utterance of Sir Winston Churchill:

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"Many forms of government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise; indeed it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time."

That utterance troubles me. It suggests that the only choice we have is between democracy as today we know it—unlimited democracy—and no democracy at all. Yet in truth another choice is available, a choice between *different kinds of democracy.* A town-hall, participatory democracy will not generate the same rules as does a centralized, representative democracy. A democratically elected government of men and women who are, in Jefferson's phrase, "tied down from mischief by the chains of the Constitution"—a Constitution limiting the powers of government to the protection of individuals from arbitrary aggression—cannot be identified with the "unlimited democracy" of rule by whatever decrees happen to enjoy the approval of the majority.

Those of us committed to liberty can, I think, take heart from the fact that many of our fellow citizens today sense that something has gone terribly wrong with government. Numerous voices have been raised deploring the "war of all against all" that has accompanied departures from the rule of law, understood as rule by known, nonarbitrarily enforced general principles of just conduct equally applicable to all, in favor of rule by edicts advantaging some and disadvantaging others.

Ordinary people have seen the inevitable consequence of such departures. On the one hand, they see the emergence of well-organized special interest groups warring against each other in their attempts to exchange votes for legislative favors. On the other hand, they note the desperate attempts of politicians both to identify and satisfy a cluster of such groups so as to achieve re-election—and to expand the market for their services by legislative measures creating new special interest groups.

Many people likewise have sensed and resented the eroding of their individual liberty and the decline in their real standard of living that have accompanied the growth of big and intrusive government, and have unambiguously signaled that they are tired of creating by their own efforts goods and services consumed by the beneficiaries of big government. We can take heart from this growing grassroots suspicion that big government is the cause rather than the solution of many of the problems we face, and from the growing number of economists crying out for increasing deregulation of the sadly fettered market we know today.

Yet while we can properly take heart, our task takes on an increased rather than a lessened urgency. A disquiet over symptoms must be linked to an informed perception of root causes. Anger directed at particular beneficiaries of governmental coercion must be coupled with an understanding that the moment one permits government to favor some people at the expense of others, the question of which groups are to be favored and which are to be coercively frustrated becomes a numbers game and nothing more. The only way to stop political plundering is to renounce all government favors.

Ideally, the locus of indignation should be a government interfering with the noncoercive exercise of any individual's autonomy, but maybe the more pragmatic point constitutes at least a starting point. Our task, in short, is to recover and remind both ourselves and our fellow citizens of an all but forgotten dream proclaiming that democracy is not enough, and that alongside the question as to who exercises the power of government goes the more important question as to what that power should be, regardless of who exercises it.

Property Rights

If the most invidious departure from the dream which gave birth to the free society is the equation of the free society and a "democratic society," then the contemporary tendency to disparage and undermine both the idea and the reality of private property rights must come a close second.

The institution of private property rights was crucial in the thinking of those who for centuries kept alive the dream of a free society and of those who made the dream a reality. David Hume in his great *Treatise of Human Nature* (Book III, Part II, Section II) succinctly states what many in the classical liberal tradition said

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before him and have said since: "No one can doubt, that the convention for the distinction of property, and for the stability of possession, is of all circumstances the most necessary to the establishment of human society, and that after the agreement for the fixing and observing of this rule, there remains little or nothing to be done towards settling a perfect harmony and concord."

Certainly the Founding Fathers had no doubts as to the crucial importance of private property in a free society. The Virginia Bill of Rights opens thus: "That all men are by nature equally free and independent, and have certain inherent rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining safety and happiness."

Today the institution of private property is very much under fire. The doctrinaire socialist and, indeed, the collectivist anarchist, perceive in private property the fundamental source of all social ills, agreeing with Jean Jacques Rousseau (a thinker whose destructive influence is unwisely overlooked by many defenders of liberty) who wrote:

"The first man who, having enclosed a piece of ground, bethought himself of saying, 'This is mine,' and found people simple enough to believe him, was the real founder of civil society. From how many crimes, wars, and murders, from how many horrors and misfortunes might not anyone have saved mankind, by pulling up the stakes, or filling up the ditch, and crying to his fellows: 'Beware of listening to this imposter; you are undone if you once forget that the fruits of the earth belong to us all. . . .' " *(Discourse on Inequality,* Part II)

Yet it is not so much the doctrinaire socialist whose attitude on private property rights should most concern us. Indeed, in one way I warm to these opponents of liberty, for they correctly perceive that in opposing individual liberty and the free society they must tackle the institution of private property head on and oppose that institution utterly. In a perverse way, such thinkers can help our cause, in that they make a well argued case for holding that the abolition of individual liberty and of the free society demands the abolition of private property rights.

More pernicious, in my judgment, are those who do not regard the institution of private property as important enough to warrant a head-on attack. At best, such people are prepared to acknowledge that private property rights are of limited value; for the most part they rarely think about such rights at all. This mentality displays itself in slogans slapped on cars which read, "Human rights before property rights!" and in documents such as the U.S. Catholic Bishops' pastoral letter on the U.S. economy, which in its draft form did not contain one reference to property rights, even though the word "rights" was tossed about like confetti.

In truth, however, the contrast between "human rights" and "property rights" is utterly vacuous. Property rights are human rights—the rights of men and women to determine how material things are used. The slick little slogan, "Human rights before property rights" depends for its effectiveness upon the mental picture it evokes: here are people with their hopes and fears, their loves and hates, their joys and sorrows; over there are dead and lifeless things. "Caring" human beings who speak of "human rights" concern themselves with the "people side" of the disjunction; Scrooge-like human beings who speak of "property rights" concern themselves with the "things side." A moment's thought should be sufficient to remind one that human beings are at least in part material beings whose physical survival depends on the use they make of material things, and hence that the right of people to determine the uses to which things are put is a singularly important human right.

Indeed, as Murray Rothbard has repeatedly pointed out, "human rights" unrelated to material realities signify nothing at all. For example, to be informed that one enjoys a "right" to free speech, but that one is not legally permitted to acquire a space one may fill with sound waves, is to be told one does *not* enjoy a "right" to free speech. To be told a given society respects the "right" to a free press, but that the purchase or borrowing or begging of paper, ink, or any sort of printing machine is forbidden, is to be told that the society in question does *not* respect the "right" to a free press. To proclaim that indi-

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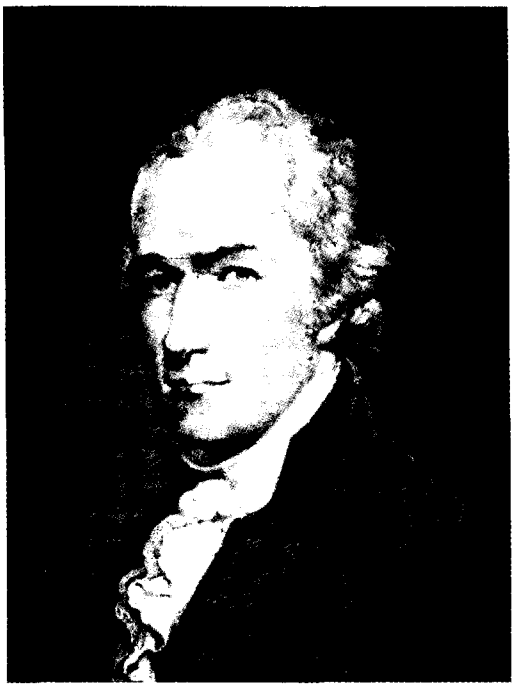

Alexander Hamilton

viduals have a "right" to life, but no "right" to seek and acquire food or shelter, is to proclaim that individuals do *not* have a "right" to life. "Human rights" that are not fleshed out in terms of the "rights" of people to control and use material things signify little or nothing.

Before going further, I should, perhaps, underscore that to assert that a person has a "right" to do X or to own Y, does not mean that he or she will successfully do X or successfully acquire Y. To say, for example, that someone has a "right" to own a watch is simply to say that he may engage in peaceful activities so as to acquire a watch, and that if successful, he is not obligated to surrender that watch. This "right" generates the purely negative obligation of other people to not coercively prevent this person from engaging in noncoercive actions to acquire a watch, and not coercively to make him surrender a watch so acquired. There is no "positive right" in the sense of some guarantee of being the possessor of a watch and certainly no positive obligation of someone to create a watch and surrender it to someone else. Simply, the "right" to property is negative.

The notion of some mysterious "guarantee" that all will succeed in their endeavors to acquire material goods, and the attendant obligation upon some individuals to create and surrender goods for the use of others, is no part of the age-old dream of individual liberty and the free society.

At the same time, it should be noted that a society respecting private property rights dramatically increases the probability that an individual will succeed in realizing his or her wish to use material things for some chosen purpose. The point is that some system of property rights is inescapable in any society. Given the ubiquitous reality of scarcity, someone has to decide how scarce resources are to be used. Is a particular area of land to be used to grow wheat at the cost of not growing oats? Are raw materials, labor, and time to be invested in the production of more transistor radios at the cost of not being used in the production of more pocket calculators? Are more goods to be consumed in the present at the cost of future capital, or is capital to be accumulated at the cost of present consumption? The decisions are inescapable, and must be made by some person or set of people.

The Role of Rules

Rules specifying who this person is or people are constitute rules specifying "property rights"—indeed, even a rule to the effect that the person or gang who shoots straightest or punches hardest shall determine how material things are used is specifying "property rights"! In reality, human beings have come up with only three systems of "property rights": rules based on tradition, rules based on political edict, and rules based on private ownership and voluntary exchange. The first—tradition—may work for a small, static, almost tribal society. The second and third seem the only options available to large and complex societies.

When property is controlled by political edicts, it is highly improbable that dissidents will be granted access to material goods so as to further their views. But when property is privately owned, in contrast, the chances of someone holding unpopular views being able to use material resources to further his beliefs are still considerable. Dissidents may pay the private owners of printing presses to print their tracts, or they may purchase or rent printing presses.

The point is essentially that made by, among

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others, Alexander Hamilton: "Power over a man's subsistence amounts to a power over his will." When the men and women directly and indirectly controlling political structures determine who may use what material resources for what given ends, individual liberty and the free society are no more. Indeed, the classical liberals' insistence upon limited government, and their insistence upon private property rights, go together. *Private property rights constitute the critical limitation upon government.* When all are at liberty to acquire property and enjoy security in their possession, liberty is secure. Conversely, as the "property rights" of individuals are attenuated—as the uses to which they may put their possessions are circumscribed or their freedom to dispose of what is theirs is narrowed—liberty is threatened.

Given that human beings are material creatures in a material world, liberty in any meaningful sense rests firmly on the institution of private property. Attenuate that institution, and you attenuate liberty; secure that institution, and you secure liberty. At the same time, by securing private property and thus limiting government, you make possible the emergence of the free market economy, an economic system ultimately resting upon individuals being able freely to determine, in the context of rules equally applicable to all, what they shall make of the time, skills, and material goods that are theirs, and freely exchanging the fruits of their efforts and labor.

It makes no sense to talk of the free market in the absence of private property rights—indeed, what is freely exchanged in the marketplace is not simply physical objects but sets of rights in those objects: the right to take physical possession, the right to resell, the right to consume, the right to change the physical form of the object, the right to give or to lend or to rent that object to someone else, the right to destroy the object. The entire system turns on precisely defined and efficiently enforced private property rights, and with the system comes almost as a bonus the material plenty with which it is uniquely associated. I say "as a bonus" simply because even if it were not uniquely associated with a level of wealth creation unimaginable before the dream of liberty became a reality, I would still opt for the free market, private property system, since it alone is compatible with individual liberty and the free society.

At this juncture, it is not unreasonable to ask: What stake do the poor have in the private property system? This is being asked by many churchmen and churchwomen, who emphasize a moral imperative to consider the situation of the poorest and most vulnerable members of a community when judging an economic system.

I submit that any understanding person, who truly cares about the poor, will come out passionately in defense of private property rights. My reason is not merely the vaunted efficiency of capitalism, or the recognition that economic intervention harms the poor more than any other group. My ultimate reason, rather, is that it is the poorest and the weakest who need to have what is theirs protected from the politically powerful.

Certainly, the fight for property rights, historically speaking, was a struggle carried on by the least privileged and by those perceiving the least privileged as human beings whose "rights" were the same as anyone else's. And the enemy against which they fought was invariably powerful castes who effectively controlled the statist apparatus of their day.

The fight for limited government and property rights, in large measure, was successful. The dream of liberty, after a long struggle, become a reality. Sadly, however, many beneficiaries of liberty grew complacent and forgetful. The dream was all but forgotten as constitutional government degenerated into unlimited democracy, and private property rights were subordinated to numerous other alleged rights. Hence our task: the task of recovering, both for ourselves and for our children, the forgotten dream of liberty. □

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The Golden Age of Opportunity

by Gregory F. Rehmke

It was a golden age of opportunity—a time when adversity coupled with a free economy generated a surge of human energy, productivity, and progress. Impoverished men, women, and children flowed into America by the millions, driven from their aristocratic homelands and tightly planned societies. Isaac Asimov, the well-known science and science fiction author, writes of his early days of opportunity and hard work in New York City in a recent advertisement sponsored by Panhandle Eastern Corporation:

"Everyone faces adversity from time to time. It's a natural part of life. By itself, it's neither good, nor bad. The important thing is how we deal with it and what we learn from it . . .

"Very early in life, poverty forced me to become quick, resourceful, and imaginative. It also forced me to accept jobs I really didn't want but which helped me grow."

Asimov's family came from Russia during the early 1920s when Isaac was three. Which of his ancestors ever glimpsed opportunities such as America offered the young Isaac? Which of them even dreamed of being anything but a peasant—without secure property, without rights, without hope for a better life?

It wasn't the adversity that was unusual for this new-generation Asimov—it was the freedom, by hard work and ingenuity, to throw off the poverty into which he was born. And Isaac Asimov became a whirlwind of action and energy. He began writing when he was eleven, and was earning money from his writings by the time he was eighteen.

But he wasn't making enough money to support himself, so he began teaching. He had no special credentials to teach, but in that day diplomas and certification were unnecessary. He was required only to know the course he was to teach—biochemistry—so he systematically mastered the subject, keeping just days ahead of his lectures. Within two years he was contributing to a textbook on biochemistry.

Where are such opportunities now? Where is the freedom for today's victims of foreign tyrannies to bring their energy and genius to America? Where is the freedom to move from place to place and job to job? And what has become of the motive force of adversity?

Poverty no longer forces one "to become quick, resourceful, and imaginative." Instead, modern poverty gives one special priorities. The certified poor can qualify for state housing, food stamps, free medical care, and other forms of aid to keep them off the streets and out of the newspapers. The energies of today's poor concentrate on the rules and regulations which govern those who receive the dole: standing in welfare lines in grim buildings at an appointed time, waiting long hours in other lines for ten pounds of "free" cheese, hiding any unapproved earnings, living furtively under the watchful eyes of the welfare spies, rehearsing pleas of need and adversity for steely-eyed bureaucrats.

One might argue that Asimov is unusual, that his innate skills are rare. That is probably true.

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But there are millions of other people who worked their way into the middle classes before the welfare traps were laid and legal barriers erected.

Today, many entry level jobs in manufacturing, construction, and other fields are no longer open to the poor. They are reserved for workers with the proper union cards. These jobs often pass from father to son and uncle to nephew. For many high paying union and government jobs you need to know someone, maybe a relative or a friend with political connections. But the poor know only each other.

At the same time, minimum wages and licensing restrictions keep many jobs above the reach of the unskilled—condemning many to remain ever unskilled, ever underqualified, ever poor. The creative and productive energies of the poor are splintered by the subtle barriers to entry quietly guarding hundreds of enterprises that had drawn in and transformed previous generations.

The golden age of opportunity for the poor has faded. Endless regulations lock away entry-level jobs at the same time as welfare payments seduce the poor into lives of hopelessness and despair. With no means to "create themselves" through productive work, and no way to understand why, they mull over the injustice of their world. The remaining currents of energy born of today's adversity are often channeled into gang warfare or playground sports or are dissolved with drugs.

How can we reanimate the stagnant world of today's poor? Rumblings are already being heard among liberals and conservatives alike. The vast scale of welfare state failures is mind-numbing to the traditional reformers. So reforms are being offered from without. More and more people, over the next few years, will consider the possibility that involuntary philanthropy does not work and that coercive regulations passed in the name of the "public good" merely guard the private good—protecting moneyed and privileged special interests from competition.

To even think that coerced (tax-supported) charity can help the poor is to accept a subtle form of slavery as just and workable. The issue of justice is perhaps buried too deep for the pragmatic politician, journalist, or layman to unearth. But the companion issue of workability is rising to the surface. Coercive programs just cannot be grafted onto the voluntary institutions of a free society. Such graftings quickly infect the institutions to which they are attached, as private philanthropy has been sullied by its bigger tax-supported companion.

Everything about Isaac Asimov's story has stamped on it "only in America." We should be proud of our country and the principles for which it stands. It was these principles—private property, free markets, and the Rule of Law—that unleashed "an unprecedented fury of human energy, attacking the non-human world, and making this earth more habitable for human beings." (Rose Wilder Lane, *The Discovery of Freedom,* p. viii) Millions of the world's poor were drawn into this vortex of productive activity, earning their way out of poverty as they provided goods and services which in turn improved the lot of their fellow man.

If we have any duties to the poor of the world and to the poor here in America, surely they include prying open the doors of opportunity, and restoring the free and open economy we inherited from our parents, and which should be the birthright of our children. □

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The Moral Foundations of Property Rights

by Brian Summers

Property rights are human rights. They do not belong to property; they belong to people who hold them with respect to property. Property rights include a person's rights of possession—the rights to use property peacefully, alter it, consume it, and exclude others. They further include the right to transfer possession by any peaceful means an owner sees fit—to sell, trade, mortgage, let, give, and bequeath. Taken together, these constitute the rights of full private ownership.

Why should anyone have such rights? Why should some people enjoy the possession and use of property at the seeming expense of others? These are questions on which the great debate between capitalism and socialism ultimately turns. Let us examine the answers offered by the defenders of private property.

Some defenders of property appeal to First Amendment rights. They ask, for example, how can the press be free if the government owns all the newsprint, presses, and distribution systems? How can religion be free if the government prints all the books and owns all the buildings? Similar arguments apply to freedom of speech and the right to assemble.

Such arguments, as far as they go, are compelling. But private ownership involves a lot more than the free exercise of First Amendment rights.

Other defenders of property go beyond First Amendment arguments to the assertion that property rights are essential to freedom itself. They contend that freedom—the absence of coercive intervention in peaceful activities—is impossible without private ownership.

But full private ownership is not a prerequisite for many peaceful activities. For some activities, such as swimming at a public beach, the right to use property is often sufficient. The rights to alter, consume, exclude others, sell, trade, mortgage, let, give, or bequeath the beach are usually not required for such peaceful use.

Of course, one can ask whether people should be free to do such things with respect to a beach. But this is merely to rephrase our original question: Why should anyone have such property rights?

A few defenders of property base their defense on the right to life. They point out that a person cannot eat without at least implicitly establishing property rights over the food he consumes. Similarly, a person would have trouble keeping warm without some property rights with respect to clothing and shelter.

Here again is an argument that, as far as it goes, is compelling. But certainly a person can eat without the rights to sell, trade, mortgage, let, give away, or bequeath his food. In addition, this argument, on the surface at least, applies only to consumer goods. What about the main concern of socialists—the raw materials and capital goods which constitute the means of production? Why should anyone own them?

Economic Approach: Incentives

Economics provides a comprehensive answer. When the means of production are privately owned in a market economy, businessmen seek to earn profits by cutting costs

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through the prudent use of scarce resources. The businessman who conserves the most resources, while giving consumers the most for their money, earns the greatest profits. Private ownership fosters efficient production.

Consider, for example, the operation of a privately owned bus company. If the operator has full private ownership—if he is free to choose his routes, adjust his fares in response to market conditions, and bargain with anyone who wishes to work for him—he has every incentive to provide cheap, efficient service. Free market competition, and the possible entry of potential competitors, supplies all the incentives needed to improve service and cut costs through conservation.

The bus owner also has every incentive to maintain his capital stock. If he ever wants to sell his company—or bequeath it to his children—he will maintain his buses in good working order.

The same incentives apply to the professional managers of a company owned by stockholders. If the managers fail to maintain the buses, the price of the company's stock will fall and the management will be replaced by stockholder vote or a corporate takeover—unless, of course, the management is bailed out by government subsidies or the takeover is prevented by threats of antitrust action.

Compare this with the operation of city-run buses. The routes and fares of city-run buses are determined by political pressure. The revenues (and subsidies) are devoured by union monopolies which threaten violence against nonunion workers. With no profit motive, and no need to keep the buses rolling past the next election, deficits soar while the buses fall into disrepair.

Incentives are the key to understanding why "publicly owned" transportation is in constant need of repair, despite huge subsidies. Similarly, incentives explain why collective farms are vastly outproduced by privately owned plots; why unowned air, land, and water are often polluted; why unowned timber, wildlife, fisheries, and grazing lands are rapidly depleted (often to extinction); and why private timber companies plant millions of saplings to try to maintain the productivity (and thus the value) of their land.

But the economic case for private property goes beyond an analysis of incentives. Economics proves that private ownership is a prerequisite for rational economic planning.

Economic Approach: Calculation

In any advanced society, knowledge is divided among millions of individuals, with no one knowing more than a tiny part. Because of this division of knowledge, scarce resources are often misallocated—inadvertently used in ways that fail to contribute the most to consumer welfare. A manufacturer may be unaware that a resource could contribute more if used elsewhere. Those who know of other uses may be unaware of the availability of a resource, or even of its existence.

To correct these misallocations of scarce resources, we need a system that (1) provides a means of discovering misallocations, (2) stimulates people to use the means of discovery, (3) encourages people to transfer control of resources to entrepreneurs who have discovered misallocations, and (4) rewards the correction of misallocations.

All this is accomplished by the free market profit and loss system. Any infringement on property rights reduces this system's efficiency. In particular, "public" ownership of the means of production prevents businessmen from competitively bidding for scarce resources. Without competitive bids, the "prices" of scarce resources become arbitrary, so that no one can calculate the true costs of any project.

These economic arguments relate to our previous comments about the right to life. We previously saw that human survival requires at least some property rights in consumer goods. We now see that human survival—at least as we know it—requires economic calculation based on private ownership of the means of production. Economics shows how property rights can, indeed, be based on the right to life.

Economics also sheds further light on the relationship between private property and freedom. Freedom—the absence of coercive intervention in peaceful activities—refers to the range of options (alternatives) a person may peacefully *pursue*. At any particular time in a market economy, this range is pretty much the

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same for all people. Of course some people, especially the wealthy, have a greater ability to *attain* options (goods, services, jobs). But, in general, these options are available for all to pursue.

Thus, as a person accumulates wealth, he doesn't, as a general rule, gain more freedom. But in a market economy, as *other* people pursue wealth by offering the consumer more goods and services, the consumer's range of options expands. In terms of options, the consumer finds that he has more freedom of choice in a modern shopping center than his grandparents had in a general store.

The Claiming of Natural Resources

Economics provides compelling arguments for the free market, private property system—based on the efficiency of the system itself. But we must still consider the justice of original claims to previously unowned natural resources. If these original claims cannot be justified, the free market forever will be plagued with charges of immorality.

Original claims to property are sometimes defended with a finder-keeper approach. According to this argument, the discoverer of say, an oil field, is its rightful owner.

But if this approach applies to oil fields, it should also apply to the discovery of a continent, planet, or galaxy. Merely being the first to observe something—or putting up the capital that leads to a discovery—seems to be insufficient grounds for full private ownership.

Other claims to property are based on first occupancy. By this argument, the first person to occupy a piece of land is its rightful owner. But merely being the first to set foot on say, Mars, doesn't seem to create a moral claim to the entire planet.

Lockean Approach

But if the "first occupancy" takes the form of settling and working the land, a strong case can be made for private ownership. In the famous words of John Locke *(Second Treatise of Government,* paragraph 27):

> Though the earth, and all inferior creatures be common to all men, yet every man has a property in his own person. This nobody has any right to but himself. The labor of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature has provided, and left it in, he has mixed his labor with, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state nature placed it in, it has by this labor something annexed to it, that excludes the common right of other men. For this labor being the unquestionable property of the laborer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good left in common for others.

The Lockean idea of acquiring property by mixing labor with unowned resources has been enormously influential, and has spawned many compelling defenses of property rights.

However, the Lockean approach is not without difficulties. For one, it includes the troublesome concept of self-ownership. Full self-ownership would imply that an individual has a complete set of property rights with respect to himself. Some such property rights are difficult to deny, such as the right to peacefully use our own faculties. But how can we consume ourselves or transfer possession?

Fortunately, the Lockean approach is more firmly based on the concept of people owning their own labor. But what does it mean to "mix one's labor" with natural resources? This metaphor has led to considerable confusion.

For instance, it is sometimes asserted that if an individual "mixes" what he owns (his labor) with what no one owns (an unowned natural resource), it doesn't necessarily follow that he owns the resource. An equally plausible conclusion, it is contended, is that he has simply "discarded" his labor—like a sailor pouring his coffee into the unowned sea.

But "he owns the resource" and "he has discarded his labor" are not the only possible conclusions. We can also conclude that because a person has mixed his labor L with an unowned resource R, he has created the "mix" LR. Thus, if he is entitled to what he has created, we can conclude that he owns LR. But the concept "LR" is, at best, vague.

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The Lockean Proviso

Another difficulty with the Lockean approach is the proviso that private ownership is justified only to the point "where there is enough, and as good left in common for others." This proviso, carried to its extremes, reduces to an absurdity.

For example, if oil companies must leave "enough and as good oil in the ground for others," where should they stop? If the last barrel of oil must be left in the ground for our children, then *our* children must leave the last barrel for *their* children, and so on. No one may ever take the last barrel. But if the last barrel is permanently off limits, then anyone taking the next to last barrel would not be leaving "enough and as good in common for others." No one may ever take the next to last barrel. Similarly with all other barrels of oil. Pushed to its limits, the Lockean proviso prohibits anyone from ever taking any nonrenewable scarce natural resource.

Many interpreters of the Lockean proviso don't go this far. However, they often demand that a first appropriator (such as an oil company) be forced to compensate all the "victims" who could have, but didn't appropriate a given resource.

But who are the victims? Anyone with an oil rig? Anyone who could have invested in oil exploration? And how much are they being "hurt"? By any amount they say?

More important, is anyone actually being hurt by the first appropriator? I, for one, am glad when someone else discovers oil. I know that, in a free market, it will eventually mean more gas for my car. In the long run, we all benefit from such competitive market processes.

Even in the short run, a potential competitor who doesn't get to the oil first is not being physically coerced by the driller who does. By what right does he demand compensation from an explorer peacefully going about his own affairs?

Some adherents to the Lockean proviso assert that private ownership is fine in principle, but as a practical matter, the "enough and as good" proviso is needed to prevent all resources from falling into private hands. Anyone coming along later, they contend, would effectively be locked out.

But as a practical matter, it is immigration laws, apartheid edicts, tariffs, and other government restrictions that lock people out. It is precisely because private owners are eager to sell and let their property that regulations are imposed by those who wish to prevent such transactions.

Creation—Transformation Approach

These difficulties with the Lockean approach are overcome by (1) dropping the Lockean proviso and (2) replacing the "mixing" metaphor with the principle that an individual owns whatever he (or his agent) creates from an unowned resource. In this approach, the justification for first ownership is not based on the owner's labor, or on the pain and sacrifice associated with his labor. The justification for first ownership is based on the creation brought forth by the first owner.

But who creates property? In the case of physical resources, at least, no one. But to "mix labor" with an unowned resource is to transform it—to create a transformation. Any person who transforms an unowned resource owns what he creates—he owns the transformation.

Thus, the first person to transform an unowned field into a farm, owns the farm. But plowing (transforming) land doesn't, in this approach, give the farmer ownership of oil lying beneath the land. Only if he pumps the oil to the surface, or creates another transformation in the oil, can he claim to own the transformation—and thus claim full private ownership over the oil he has transformed.

If an individual owns whatever he creates from an unowned resource, he clearly owns whatever he (or his employee) creates from his property. For example, if a farmer pays an employee to transform his oranges into juice, the farmer owns the juice.

And he may sell the juice for whatever price the market will bear. If this price yields a profit, the profit belongs to him because (1) he owns the juice and (2) his decision to transform the oranges created the opportunity to discover the profit.

This last argument may appear to be nothing

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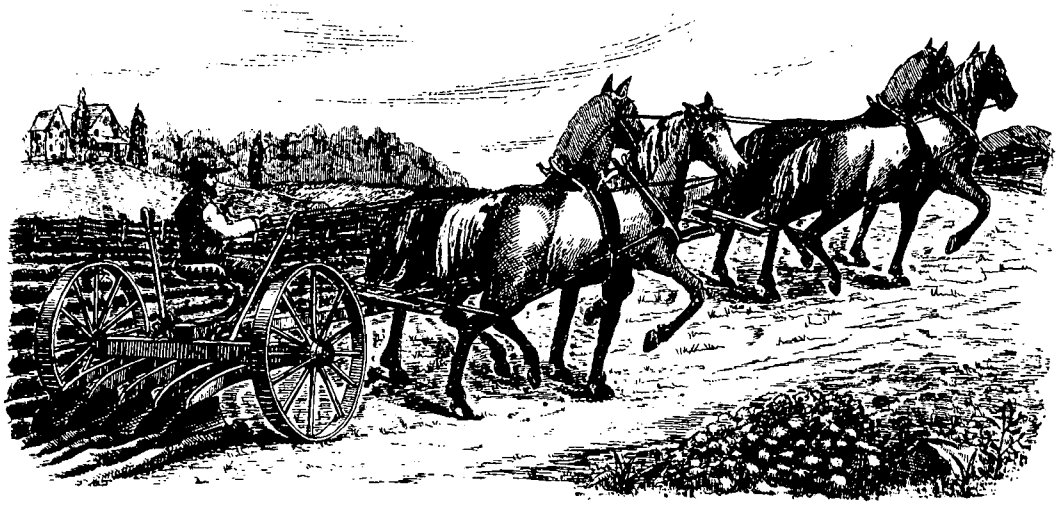

"A farmer acquires previously unowned land by transforming (clearing and plowing) a field."

more than the finder-keeper approach. Our farmer-entrepreneur, after all, discovers the profit (or loss) which results from his decisions—much as an explorer discovers lands as a result of his decisions. They both create their own opportunities to make discoveries.

But there is a fundamental difference. The lands exist whether or not the explorer decides to look for them. The farmer's profit doesn't exist without his decision to transform the oranges. His employee is needed to make the juice, but the farmer's entrepreneurial decisions make the difference between profit and loss.

As a practical matter, the creation-transformation approach assigns property rights in much the same manner as the Lockean approach (without the "enough and as good" proviso). But there is at least one basic difference. Some people interpret the Lockean approach to mean that once labor has been "mixed" with an unowned resource, that resource forever belongs to the "mixer" and his heirs. For someone else to take the resource, he would have to "take" the mixer's "stored up labor." Thus, an abandoned, overgrown farm would forever belong to the farmer's heirs.

The creation-transformation approach, however, assigns property rights only as long as a transformation exists. Our farmer acquires previously unowned land by transforming (clearing and plowing) a field. If he abandons the field and lets it revert to a state of nature, his transformation gradually disappears. When his transformation has completely vanished, his property rights with respect to the field would also vanish.

The Justice of Current Property Holdings

What do the arguments for private ownership say about the justice of current property holdings? Do they endorse the status quo? Or do they call for a massive transfer ("redistribution") of property rights?

The economic argument supports private ownership *as an institution.* Economics tells us that private property, free trade, and peaceful cooperation promote economic efficiency and enhance human welfare. Thus, the economic approach endorses any property holding that came into being through peaceful means. Property holdings acquired through violence, however, receive no endorsement because such coercion—legal or illegal—disrupts the market process.

But economics says little about the justice of original claims to property—the holdings of those who first claim property from previously unowned resources. For this we must turn to the Lockean and creation-transformation approaches.

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These two approaches provide ethical guidelines for acquiring property from a state of nature—guidelines for, in effect, creating property rights. As a corollary, they endorse voluntary transfers of justly acquired property.

But these arguments do not endorse property acquired by immoral means. Violence, conquest, and coercion may create legal "rights" to property, but they do not create moral rights.

To what extent are such immoral means the basis of current property holdings? A detailed answer is beyond the scope of this paper. There are, however, two facts we should bear in mind.

1. The original inhabitants of a territory did not necessarily have a moral claim to all its resources. First occupancy is an insufficient claim to first ownership. Claims to original ownership must be based on creatively transforming ("mixing labor with") natural resources.

2. Most current property holdings are not in the form of raw land. Most of what we own has been *produced* since the advent of capitalism. Even if a native has a valid moral claim to the land on which a skyscraper stands, he cannot claim to have created (and thus own) the skyscraper.

Thus, in general, property holdings arising out of capitalistic (free market) activities are morally justified. And violations of these property rights are to be condemned.

Legal Plunder

In particular, our arguments condemn the morality of all government transfer programs—subsidies, welfare, and the like. Such programs are nothing more than the indiscriminate *legal plundering* of property that has been justly acquired through peaceful, mutually beneficial, market transactions.

Our arguments further condemn all interference with the peaceful exercise of justly held property rights. By what right does anyone dictate how much rent a landlord may ask for *his* apartment? Or how much an oil dealer may ask for *his* oil? Or what a farmer may grow on *his* land?

And our arguments condemn the seizure ("locking up") of millions of acres of land by various government agencies. By what right does anyone prevent people from peacefully transforming unowned resources? By what right do government officials—who haven't creatively transformed an acre of wilderness—claim property rights over this land?

Such ethical considerations, of course, receive little attention from men of practical affairs. Real world decisions, it is widely believed, should be made on practical grounds—with ethical arguments best left to the moral philosopher.

On practical grounds, however, those concerned with the future of the free society place themselves at a serious disadvantage by ignoring ethical arguments. The opponents of freedom can always conjure up expedient grounds for further government intervention, confident in the public's ignorance of the economic and historic arguments against such intervention. Unless such expediency is met with compelling moral arguments against the violation of property rights, the would-be controllers will usually have their way. □

IDEAS ON LIBERTY

The Right to Property

The institution of property, when limited to its essential elements, consists in the recognition, in each person, of a right to the exclusive disposal of what he or she have produced by their own exertions, or received either by gift or by fair agreement, without force or fraud, from those who produced it. The foundation of the whole is, the right of producers to what they themselves have produced.

—JOHN STUART MILL

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Public Education: How Free?

by Rolf McEwen

Numerous virtues have been ascribed to public education, but it is certainly not free in any sense of the word. Although tuition is not paid at the classroom door, we know that taxes are taken from people-at-large to pay for public schools. Costs per pupil per year range between $2000 and $7000 in various states. Although we know that taxes pay for these services, there is often an illusion that schooling in America is somehow "free."

We know that education for youth in America is mandatory. During several decades of the mid-nineteenth century, it was decided in various legislatures that compulsory education was good for the people and for the nation, perhaps to ensure an educated populace capable of democratic self-government. It was thought that representative government required a level of education which could not be guaranteed without institutions mandated and financed by taxation and government promotion. It was sometimes considered a matter of national security, that a superior knowledge might be achieved in the people, providing a higher level of productivity and a competitive edge in world markets. Legislators considered it a matter of law to establish excellence in education through a public tax-supported system. Therefore, the freedom to choose *not* to go to school was removed, and compulsory attendance laws were enforced. Citizens were not free to neglect school attendance, and they were not free to neglect tuition payments through taxation.

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The intentions of those promoting tax-supported public education were good. Compulsory education laws were intended to promote the general welfare and to ensure that parents would not neglect their children's education, exploit their services at home, or manage family resources so that funds were not available for tuition payments. But the good intentions of lawmakers have not brought success. Public schools are not successful in guaranteeing student proficiency or in maintaining school attendance. Only about 75 per cent of students entering high school graduate, and many of those are considered functionally illiterate. It is estimated that 20 per cent of Americans cannot write a letter or read the newspaper.

Can we say then that public schools have succeeded? Have literacy and educational proficiency improved during the century or so of public schooling? Studies have shown that literacy rates in eighteenth century America were higher than they are today. Thus, ironically, the general public was more proficient academically before the introduction of compulsory education and government support of schools.

How can this be? Why have the public schools failed to provide educational excellence? Vast amounts of money are being expended, voluminous studies have been conducted, graduate schools promote advanced programs, and yet the results are so disappointing.

Perhaps the reason lies in simple concepts such as individual initiative and freedom of choice. Do not most people find it profitable to be able to read and write? Do not most people

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wish to make the most of their own lives, to compete successfully for desirable employment and higher incomes? It appears sensible that the pursuit of happiness provides sufficient incentive for people to improve themselves educationally. Thus the need for schooling is in one's self-interest, although perhaps "schooling" is not the most accurate term, for maybe it is actually learning that people seek. When schooling is mandated by law, that sense of "opportunity" which arises from free choice vanishes, and often a stubborn and uncooperative spirit finds its way into the classroom, causing disruption and hindering the learning environment for eager students. Attitude is affected by compulsion, and poor attitudes hinder education.

Likewise, the economic compulsion attached to taxation creates additional attitudinal problems. There are those who do not willingly submit thousands of dollars to the local schools, and their attitudes find expression in the surrounding culture. Often these taxpayers believe that they should have some freedom to choose their children's school. Perhaps they wish to select the teachers for their children, or the curriculum. This is not practical or possible in our public school system. Parents are unable to effect change or to choose from a variety of alternatives because the system is rigid and often controlled by district administrators or policymakers far removed from the local community. When state funds are provided to local schools, strings are often attached. It is difficult for local communities to operate schools free from bureaucratic control at state and Federal levels. It is frustrating to teachers to be manipulated and directed by restrictive policies, it is frustrating to parents to be unable to make choices of schools and teachers, and it is frustrating to students to have to submit to state-mandated coursework.

Many are persuaded that abandoning compulsory education laws and tax-support for schools would result in empty classrooms and impoverished schools, but there is little historical evidence to support this theory. If it is in the interest of people to develop knowledge and skills in order to acquire desired employment and financial success, will they neglect their education? Quite the contrary, students will yearn more eagerly for education than they do under the compulsion of current law. They will perceive education not as a requirement, but as an opportunity. Administrators will not be burdened with trying to provide discipline for uninterested students, and schools would arise to meet the demands of various student interests and abilities. The market would soon be competing for students, and students would be competing for the best schools and the best teachers. The entire psychological atmosphere surrounding schools and education would be improved, would be more positive, and there would be excellence in a variety of programs. Of course, there would be some who would choose to not attend school. But those same students are not attending under the present circumstances.

Whose Responsibility?

Is it the responsibility of government to decide that citizens should be educated? Should the state decide what is proper curriculum? I believe these matters are better left to parents and individuals. The enormous expense now placed upon society is not efficiently managed. Attitudes are not right. The bureaucracy has promoted attendance and conformity, but has failed to maintain creativity, interest, and excellence. Money has proven to be insufficient to mend the ills. The truth is that what education requires, government cannot provide. It needs freedom. Education needs a free market without government funding, direction, interference, or assistance. What the legislators intended to improve they diminished.

One might ask "You don't think you're going to abolish public schools in America, do you?" It does seem rather incredible to pose such a possibility. It's an appealing possibility, nevertheless. It's sometimes just enjoyable to pipedream. The sad fact is that public education has declined for the past twenty-five years. More and more money is tossed at the problem, but results are dismal. Achievement tests have recently shown some improvement, but only due to a drastic lowering of difficulty in the tests. If the 1960 editions of standardized tests were administered to students today the results would indicate inferior levels of achievement in all academic disciplines.

Private schools would take up the task of edu-

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cation and provide services at a variety of locations, with varying costs, philosophies, and areas of specialization. Students and parents would select schools of their choosing, and they would examine the programs more closely than they do under current conditions. Parents would have to take more interest in their children's education because they would have to inquire into schools and teachers and curricula. The choices would promote lively debate and inquiry in the community as parents sought the best education at the lowest cost.

Teachers' salaries would be determined by market competition. Good teachers would be promoted and poor ones would be weeded out. The bureaucracy would be unable to protect jobs for poor teachers entrenched in their positions. Teachers would sense greater support from parents and greater interest from students. Stultifying regulations and controls would be lifted from their backs, and they would acquire added freedom to stimulate learning and improve achievement. In short, the entire academic atmosphere would obtain a shot of vigor in the course of competition, freedom, and choice.

Now, why is all this a pipe-dream? Because people believe the experts whose self-interest is served by continuing the current system. Citizens are too busy to examine the problem and too docile to take responsibility for education themselves. The government system is easy on such people because it makes choices for them and thinks for them. We must rouse ourselves and take responsibility for our own lives rather than leaving it to government to provide for us, to educate us, and to make our decisions. If we give the government 40 per cent of our national income and tell them to spend it for us, they will. And in fact, they do. Education is a good place to begin directing our own lives by allowing people to choose their own schools, or no schools, and to see education as the opportunity and responsibility that it is. □

Private Schools in the Inner City

by Howard Baetjer Jr.

Those who believe that educational services should be provided by a totally free market, with no governmental involvement in schooling, are frequently told: "You are advocating a completely private school system, with no public schools for the poor. How can the poor possibly afford private schools?"

These are serious concerns, which need to be addressed. Thus, we welcome a recent Heartland Institute study of private schools in the poorer sections of Chicago. The study, by Joan Davis Ratteray, president of the Institute for Independent Education, shows that demand for private schooling is high and increasing among those in the city's poorest neighborhoods.

"There are nearly fifty [independent neighborhood schools for Black and Hispanic youth] in Chicago," says Ratteray, "with most of them located in the least affluent communities." These are grade schools, for the most part, some high schools, and some schools offering grades K-12. Their total enrollment is about 2.3 per cent of the enrollment in Chicago's public schools. Annual tuition ranges from $270 in the poorest areas to $3000 in more af-

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fluent neighborhoods. Strikingly, " . . . in the city as a whole, schools that are closest to poor neighborhoods have the highest enrollments, the longest waiting lists, and the greatest need for expanded facilities." One grade school within walking distance of five housing projects has a waiting list of over one thousand!

Why should poorer parents be so eager to pay extra for private schools? Because leaving their children in the public schools bears an even higher cost—in their children's education, personal development, and physical safety. Parents express deep concern about the low academic standards, the violence, and the unapproachable bureaucracy of the public schools. They want for their children discipline, safety, and a strong sense of values. " . . . [T]hey are willing to endure severe economic hardship in order to provide a better chance at learning for their children."

They are also willing to work hard and imaginatively to keep their schools going. According to Dr. Ratteray, "[T]hese schools are the epitome of self-help, entrepreneurship, and innovation." Parents pay tuition out of meager savings from paychecks, by help from grandparents, and by working at the schools. They frequently participate in fund-raising, which often provides a substantial portion of the schools' budgets. One school augments income with the profits from a thrift shop operated by the parents; another "is part of an organizational structure that houses its own publishing company and bookstore . . . [O]ne-third of the school's operating capital comes from the success of the other two enterprises."

Some of the schools take advantage of church buildings and in-kind help from their communities. Some receive support from foundations and church congregations with which they are affiliated. A few are blessed with energetic leaders who campaign around the country to raise additional operating funds. Through such programs as "adopt-a-child," churches and civic organizations undertake a child's costs. And in one school, "teachers participate in a salary-sharing program that is maintained by contributions from donors outside the immediate community. In this way, the contributors maintain a personal relationship with the teachers they sponsor and come to learn a great deal about the program."

The Chicago experience casts doubt on one of the main reasons given for public schools—that the private alternative is too expensive, especially for the poor. Certainly many of the less-affluent parents have severe difficulty making tuition payments, and the low-budget schools often do without enough textbooks and adequate facilities. Often parents must withdraw their children, and occasionally the schools fail. Nevertheless, these schools on the whole are succeeding and growing, an accomplishment the more impressive for the financial difficulties involved.

These financial difficulties would diminish in an education setting free of the government's massive presence. Chicago will spend about $1.84 billion on its school system next year, or $4279 for each of the 430,000 children in it. If parents or private benefactors didn't have to pay taxes toward this costly system, they would have more dollars to spend on schools of their choice. In the absence of competition from the tax-supported public schools, the demand for independent schools would increase—boosting the number, quality, and variety of private schools.

What is occurring in Chicago is a dramatic illustration of market response to human wants, no less impressive for its small scale. Faced with the calamity of inner-city public schools, a dedicated core of poor parents are exercising their power of choice, and private enterprise (non-profit in this case) is responding.

The tragic irony is that the very existence of public schooling restricts parents' power of choice. It obstructs them from providing the education they want for their children. Many well-intentioned people believe that the poor have the most to gain from public schooling. In Chicago, at least, the opposite seems to be the case.

Chicago's neighborhood schools, persevering and growing despite economic hardship, show that private, voluntary endeavor can support schooling even in the lowest-income areas.

A free society must put a premium on liberty. Parents' freedom to choose how they will spend their education dollars, and at what schools, is paramount. The growing movement to independent neighborhood schools is a positive step toward restoring education to private endeavor and free parental choice. □

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Our School System: The Dream and the Reality

by David Smyth

One night I had a dream. I dreamed that some of us got together in our small New Jersey town and abolished its public school system. We removed the public school system's legal privileges, and ended its tax support. From then on, all schools would have to compete on an equal footing in a free and open market.

In my dream, we had to face down tremendous opposition. From traditionalists who insisted that a public school system is an integral part of the American way of life. From educational experts who told us we would raise a generation of ignorant savages. From real estate people who warned us that buyers would shun our town and that real estate values would plummet. From legal experts who told us the move was illegal and unconstitutional. From teachers and employees of the public schools who saw unemployment staring them in the face. From parents and citizens who were worried to distraction by all these objectors.

Nevertheless, we accomplished it. In my dream, our decisive weapon seemed to be the circular we sent to all the town's inhabitants. We pointed out that residents like my 75-year-old neighbor Mrs. B., now scraping by on Social Security, was paying $1,000 a year in taxes for a school system she hadn't used since her children grew up. She would continue paying for the rest of her days although she would never again use the school system. I pointed out that I was paying $1,800 a year to send my son to a Catholic high school in addition to the $1,800 that was extracted from me in taxes for a school system I wasn't using either. I asked this question: If a private organization can run a school for a yearly fee of $1,800 per student, why does the public school system have to charge an average of $1,500 to *every householder* in the town—not only parents of school children but also elderly people like Mrs. B.? Childless couples? Single people? None of them have any children nor get any benefits in return for their tax money.

Catholic schools can rely on the volunteer work of their brothers, priests, and nuns, and pay their lay teachers less than public school teachers, some objectors said. But this didn't convince some parents who were sending their children to private schools for a fee of $3,000 to $5,000 a year. They pointed out that on a per-student basis these privately run schools were still costing about the same as the per-student cost of the public school system, and providing a better education.

Anyway, the town council was planning to increase school taxes the following year, people in our town were getting tired of rising taxes, and they decided to give us a chance. In my dream, we dumped the school system.

Then the competition began. A group of public school teachers decided to form a co-operative, rent one of the elementary school buildings, and offer a primary school education for a fee. They all knew each other, they wanted to succeed, and they didn't have much trouble weeding out the incompetents in choosing their

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co-op members. They knew they couldn't survive with a lot of dead wood in the staff.

A Protestant group that had been running a Bible-oriented school in an abandoned army barracks decided to bid for another of the school buildings and advertised for pupils among the Protestant churches.

The Catholic church already had a boys' school in the area but lacked a girls' school. It decided to rent a third school building for this purpose.

A fourth school went to a conservative Jewish group that stressed instruction in Hebrew and Jewish religion.

The remaining school, which had already been closed under the public school system due to the baby-bust that had resulted in declining enrollment, was sold to a private entrepreneur. This man rented out sections of the school to various smaller groups: One school specialized in helping retarded children, another stressed practical instructions such as carpentry, a third was oriented to technological instruction in electronics and computers.

In my dream, we now had a wide variety of schools available for all our parents. If they didn't like one they could try another. If they couldn't afford this one they could move their children to that one.

There were some poor people in town who said they could not afford any school. If they were homeowners, we asked how they had previously afforded the school taxes, which were now abolished. If they rented apartments, they should have benefited from the dramatically lower taxes paid by their landlords who, in response to competitive forces, were lowering their rents.

Nevertheless, there were people who genuinely could not afford to pay for their children's education. In my dream, we asked the churches to help these people, which they were the more willing to do now that they had more Protestant, Catholic, or Jewish schools to choose from. We asked business, social, and civic organizations to provide scholarships for needy children.

There were still a few parents—a very small, ignorant antisocial minority—who willfully and positively refused to provide their children with any education at all. I was wondering what should be done about these people—and I do not believe in forcing anyone to do anything, but still the situation seemed unfair to their children—when I woke up.

An Impossible Dream?

I am acquainted with the school system administrator in our town and the next time I met him I asked him whether my dream could ever become a reality. *Impossible,* he said. The laws simply will not allow the abolition of a public school system. We have to try to improve what we have.

The administrator is an amiable, harassed man who deserves a better fate. He is doing his best to run a system which relies on the political solution of school problems. The political solution means that everybody in town votes on what is to be done about the school system, the majority elects its representatives into office, and then everybody has to do what the majority wants. This means there are always minorities—some of them very vocal and indignant—who are not getting what they want, and who are therefore perpetually harassing the school administrator. There is, however, nothing we can do about it, because that is the way the system works.

Abolish the political solution method—which means ending the public school monopoly and the forced collection of taxes needed to support it—and you let the free market work. The free market solution means that anyone who thinks he has something to offer in the education field can set up a school—religious, technical, academic, or whatever else—and see if he can get enough people to keep him going. This means that every conceivable minority can be catered to without infringing on anybody else's rights.

If parents want their children to have prayers in school, they send them to schools that have prayers in school. If they don't want that then they choose a school that has no prayers. This is simply nothing to argue about. It becomes a non-issue.

The free market solution imposes its will on nobody. There is no way that the political solution can offer any comparable richness, diversity—or I believe in the end, quality.

Impossible, our school administrator said. But the next night my dream returned. In my

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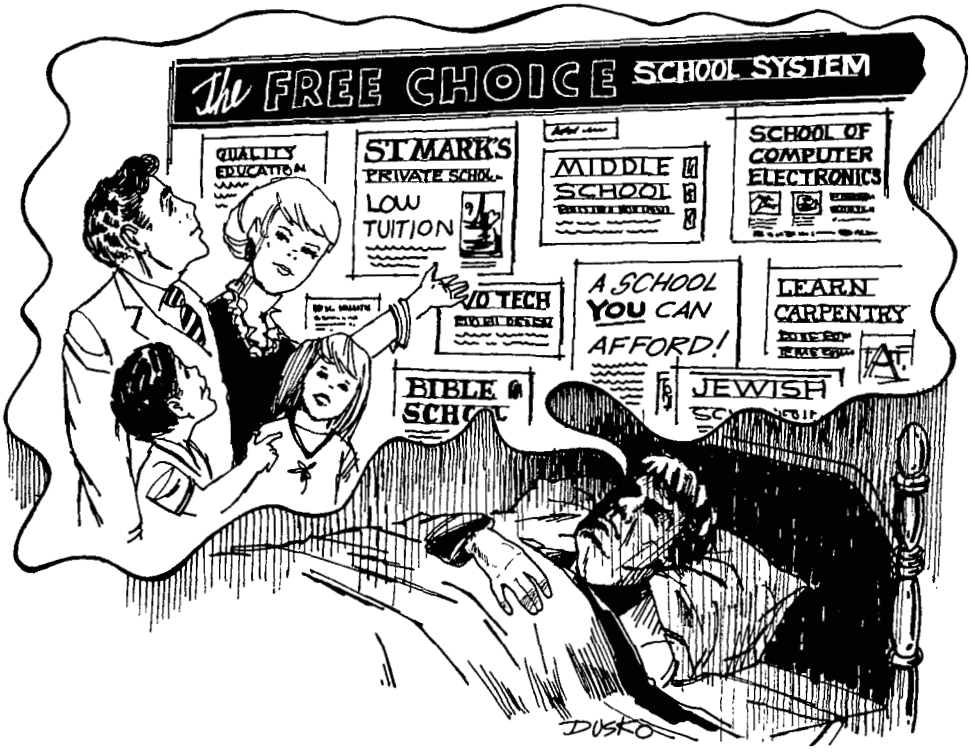

dream, none of the predicted calamities fell on our heads when we abolished the public school system. Most of the teachers—the competent ones anyway—found jobs. Parents were more satisfied with their schools than they had ever been before. Our taxes were lower. The competition between schools raised the level of school services. Most of the needy people were helped to get an education for their children. We still don't know what to do about the half-dozen families that refuse to educate their children—but I am not sure how children from such an environment would fare in any school system. The real estate bust never came, and practically everyone stayed on to see how the new system would work out—particularly with the incentive of lower taxes.

Over a longer period of time there will be some benefits and some disadvantages. We shall have to see. There may be an influx of childless people fleeing from high school taxes in other towns. Families with a large number of children may tend to move out and seek a better deal in those school-tax-system towns. However, the variety and quality of our privately run schools should attract to our town families interested in a quality education for their children. As neighboring towns see how we have managed to cut taxes and improve our educational system at the same time, they may follow our example.

Impossible—the school administrator's judgment wakes me up again. And indeed I shall have to stop dreaming. Our town's school system really isn't all that bad. There is some drug-dealing, but there are no rapes, murders, knifings, gang-fights or other murderous occurrences to speak of. Most of the students manage to graduate from high school.

But there are other towns in the United States where all these horrors are daily happenings, where the school corridors are little safer than World War I trenches, where school lavatories are unusable by decent students, where the education is so bad that a large percentage of the students graduate from high school without being able to read or write properly or even to locate where the United States is on a map of the world.

I still dream that sometime, somewhere in the United States, somebody is going to do something with the public school system that will be an example to the rest of the country. □

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Gray's Liberalism

by John Chamberlain

In his *Liberalism* (Minneapolis, the University of Minnesota Press, 106 pp., $9.95), John Gray of Jesus College, Oxford, takes an exceedingly broad view of his subject. With him, F. A. Hayek, John Maynard Keynes, John Locke, Thomas Hobbes, even the Fabian socialists, are all liberals together. It is their common claim to individualism that binds them. The individualist asserts the moral primacy of the person against the claims of the social collectivity. Fabians who are waiting for the inevitability of gradualism to bring them to socialism are confident that the State will not interfere with their private affairs under a collectivist order, which means that they remain liberals in heart, though in a deluded sense.

Gray's definition spares him a lot of trouble when it comes to dealing with the difference between continental European liberals, who hold to the nineteenth-century classic outlook, and American and British liberals who want cradle-to-grave support in all phases of their existence. Liberalism, to Gray, constitutes a single tradition in spite of the variations that have come with what he calls the "revisionist liberalism of our own times." Personally, I find Gray's effort to stretch a rubber band around Hayek and Keynes, Tocqueville and Harold Laski, Hobbes and Mises, a bit confusing. But until he comes into really modern times, Gray is clear enough.

He begins by denying any claims to the ancients, whether Greek or Roman, to being liberals. The ancients, even Aristotle, did not grant that individuals had any immunity from control by the community. To them, a man was free when he had an entitlement to participation in the community's deliberations, but that is as far as it went. Anti-liberal sentiment is not as virulent in Aristotle as it is in Plato, but Gray says that "nowhere in Aristotle is there any glimmering of an assertion of the negative right to individual liberty postulated by such modernists as Hobbes and Locke." The Sophists did indeed develop a doctrine of political equality that went against elitist conceptions of government, but the Western world had to wait for the seventeenth century for the first systematic expositions of the modern individualistic outlook which fathered the liberal tradition.

Hobbes began the tradition when he postulated that each man always acts with a view to his own benefit. But this, with Hobbes, did not mean that men would fight to the death for freedom. Since men, in his opinion, were compelled to avoid violent death as the greatest of evils, they were content to accept a Leviathan state with an arbitrary power to keep the peace. Hobbes may have been an individualist, but he offered no defense against the coming of the totalitarian State. Nor did Spinoza, despite his feeling that human beings aim to persist in being not only to avoid death, "but in order to assert themselves in the world as the individuals they are."

Gray says that Hobbes and Spinoza belong to "the prehistory of liberalism." The Spanish Jesuits of the School of Salamanca anticipated some of the themes of the classical liberals of

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the Scottish Enlightenment when they argued that the just price of any commodity was the market price. But, as Gray puts it, "the central elements of the liberal outlook crystallized for the first time into a coherent intellectual tradition" in John Locke's *Second Treatise on Civil Government.* Locke was the first to link the rights to personal property and individual liberty. To him, the property right came from mixing one's personal labor with natural resources appropriated without theft. It was the duty of government to protect the property right under the rule of law. The acceptance of Locke's theories was essential to the full flowering of the capitalist order. The American Revolution of 1776 might be called the colonial version of the English Glorious Revolution of 1688, which Locke's theories touched off.

Classical liberalism, developed in detail by the Scottish philosophers and Adam Smith, gave a distinct character to the first half of the nineteenth century in England. The classical economists of this period subscribed to the theory that the State had only night watchman functions. But theory and practice did not always jibe. The first Factory Acts, passed in the early decades of the century, were an infringement of the laissez-faire doctrine. There came a real split with John Stuart Mill, who held that the State had rights to distribution of the capitalist product once it had come into existence. Mill was the first important revisionist liberal.

Gray is good when it comes to tracing the ramifications of revisionist liberalism in Britain and the attempts to backtrack from it to a classical stance. He is less satisfactory when it comes to a description of the American scene. The revolt against Fabian revisionism in the U.S. was considerably more than can be found in the work of Robert Nozick. Gray makes no mention of such important anti-revisionist rebels as Albert Jay Nock, Garet Garrett, Claude Robinson, Henry Hazlitt, and Leonard Read. Despite the failure to give credit where it is due on this side of the Atlantic, Gray's final defense of the free market is first-rate. □

Editors' Note: *For another perspective on Professor Gray's* **Liberalism,** *we are pleased to publish the following review by Professor Richard Ebeling of the University of Dallas.*

LIBERALISM

by John Gray

Minneapolis: University of Minnesota Press • 1986 • $9.95

Reviewed by Richard M. Ebeling

The twentieth century has frequently been labeled the "age of collectivism." Since the first World War, the spirit of individual liberty and the policy of economic freedom have appeared to be irrevocably on the decline. Every conceivable form of State control and management has been tried during the past 75 years: socialism, fascism, Nazism, welfare statism, and interventionism. And each has failed, bringing nothing but tyranny, poverty, and a lost sense of hope in its wake.

But now with the twenty-first century less than 15 years away, the age of collectivism may be drawing to a close. And in its place may be coming a new liberal era. This is what makes *Liberalism* by John Gray such a valuable handbook. In a mere 100 pages, Professor Gray outlines the history of liberalism from ancient times to the present, and gives a concise and insightful analysis of the major tenets of the liberal point of view.

It is important to realize that by liberalism, Professor Gray means *classical* liberalism, i.e., the political philosophy which has emphasized that civil liberties and economic freedom are inseparable, both requiring respect for private property in a competitive, free market environment.

The historical half of the book traces the origin of liberal ideas to the ancient Greeks and Romans. But, as Professor Gray points out, the individualist foundation of liberalism only really developed in the seventeenth century in the writings of such thinkers as Benedict de Spinoza and John Locke. However, it was only in the eighteenth century that a general liberal world-view and philosophy was systematically developed by the Scottish moral philosophers, the French *philosophes,* and the American founding fathers.

While liberal ideas predominated throughout the nineteenth century, Professor Gray points out that an era of full *laissez-faire* never existed and liberal policies in general were on the decline by the 1870s. A major villain in the story

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is John Stuart Mill who flirted with socialism and redefined liberalism in such a way that opened the door to the redistributional welfare state. The liberal era ended with the First World War and the growth in State power and control over economic affairs.

Now that collectivism has been tried and found wanting, there is new interest in the liberal alternative, and Professor Gray analyzes the premises of liberalism in the second half of his book. He discusses the alternative foundations that have been offered for liberalism—natural rights, utilitarianism, and contractarianism—and explains the strengths and weaknesses of each. He contrasts the alternative "negative" and "positive" meanings of freedom and their relationship to each other.

In a chapter on "Individual Liberty, Private Property and the Market Economy," Professor Gray defends economic freedom for the protection of individual liberty by drawing upon the writings of Austrian Economists, particularly the works of F. A. Hayek (who has defined the market economy as a "spontaneous order" of mutual and voluntary cooperation).

Professor Gray brings the book to a close with a discussion of the "legitimate" functions of the minimal, liberal State and the possibilities for classical liberalism in the future.

One of the most difficult problems in the past was to know which single book to recommend to someone interested in knowing more about the classical liberal ideal, but who was not up to reading through a half dozen lengthy works. Professor Gray has now solved that dilemma with a readable and concise volume. □

Freeman readers may order copies of John Gray's **Liberalism** at $10.95 each (includes shipping) from Laissez Faire Books, Department F, 532 Broadway, New York, NY 10012, (212) 925-8992.

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